



**MANAGING CHANGE
IN
AGRICULTURE AND
FOOD**

**The Proceedings of the eighth
annual Ontario Agricultural
Outlook Conference**

**November 5 and 6
1990**



**Ministry of
Agriculture
and Food**
Ontario

Foreword

This document contains edited versions of presentations given at the Ministry of Agriculture and Food's 1990 Agri-Food: A Look Ahead Conference. The conference was held on November 5-6, 1990 and approximately 450 people attended.

This annual conference brings together members of all sectors of the agriculture and food industry and it provides a forum to facilitate the discussion of policy issues relevant to Ontario producers, processors and consumers.

This year's theme was *Managing Change in Agriculture and Food*. Prominent speakers addressed this theme from various perspectives. Lloyd Quantz, AgriTrends Research Inc., set the stage for the conference by highlighting current and future trends which are and will be prevalent in Ontario. Lynne Cohoe, Homeland Farm Limited and Greg Clark, John Deere Limited, provided personal insights into the changes which have and are occurring in the operations and businesses they manage.

Randall Westgren, McGill University, presented the linkages between public policy and private sector activities. An example of government environmental policy and its impact was provided by Robert Wolcott, Environmental Protection Agency. Owen Jennings, Federated Farmers of New Zealand (Inc.) provided the history and results of change in his presentation on the developments which have occurred in New Zealand agriculture policy in recent years. John Core, Ontario Milk Marketing Board, and Andrew Barrett, H.J. Heinz Company of Canada Ltd. ended the formal session of the conference by providing their views on the implications of managing change in the Ontario agriculture and food industry. William Dover, General Mills Restaurants, Canada was the banquet speaker providing insights into the issues being dealt with at Red Lobster and The Olive Garden restaurants in Canada.

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Developing new policy directions for agriculture in Ontario

The new government will develop agricultural policies that reflect its concern with social justice for farmers, and for the protection of the environment.

Elmer Buchanan
Minister of Agriculture and Food



I would like to spend my time today outlining some of the broad approaches the new government intends to take on agricultural and food issues during the next four years. I believe that the election result on September 6 was more than a protest vote. By electing a majority NDP government, Ontarians — including rural Ontarians — were saying that they want an activist, reform-minded government which is attuned to the concerns of ordinary people in the province.

We are committed to developing new agricultural policies which will reflect these concerns. What's more, we want to develop a broadly-based process of consultation between farmers and the food processing industry. We want to encourage a new ethos of co-operation between the producers of our food, the businesses which support farmers, the residents who live in rural communities, the companies which process the food and the city people who consume the lion's share of that food.

In short, the vision of the Ontario farm community and food industry which we hold is one of responsibility to the environment, and a commitment to social justice for farmers, their business partners, and their neighbors who live in rural areas. Ultimately, in our view, all links in the food chain must be strong.

In the past, Canadians have taken it for

granted that they will have a plentiful supply of inexpensive, high-quality food. However, global realities are quickly changing this disregard for the food system. The potentially-explosive situation in the Persian Gulf is giving us an acute awareness of the role of energy in food production. Growing consumer concern over food quality is encouraging farmers and food processors to review traditional production and processing methods. The encroachment of urban areas on foodland has reminded us of the preciousness of our agricultural land base.

These trends, and others, are giving us all a better understanding of the true cost of producing food. We are beginning to understand that the cost of food will inevitably include more than just the price tag for agricultural inputs, wholesale processes and a margin for profit.

We must now take into account the costs to the land, air and water, and to the health and safety of farmers, rural residents, food workers and consumers. In short, the new government is committed to an agriculture and food policy which is committed to environmental responsibility.

Working with the farm community and the food industry, we want to define what agricultural sustainability means. We need to build on our current initiatives to determine how Ontario can move to an agriculture and food system

The Hon. Elmer Buchanan, Minister of Agriculture and Food, was born in Havelock, Ontario, and raised on a farm in Belmont Township. His parents still reside on the farm, which has been in the family since 1834. Mr. Buchanan was educated at Queen's University, and for the past four years was vice-principal of Northern Hastings High School in Bancroft, before his election to the Legislature and his appointment to the Cabinet. He has been a member of the New Democratic Party since 1972, and is a past president of District 19 of the Ontario Secondary School Teachers' Federation.

which is environmentally sustainable.

Equally important is the need to promote a sense of social justice for farmers, their business partners, and their neighbors who live in rural communities. During the 1980s, neo-conservative economists called for greater and greater competition among farmers, and between the farm community and the food processing industry.

This was based on the assumption that increased competition would lower food prices and improve global markets. This did not occur. Instead the level of distrust between the farm community and the food processing industry in some commodities has never been greater. Farmers are being paid prices which have — in real terms — eroded over the last decade. As the Ontario Agricultural Commodity Council pointed out last week, real prices for grains and oilseeds are one-third lower than they were in the dirty 1930s.

Even prices for producers of supply managed commodities — farmers who receive their cost of production — have not kept pace with inflation in recent years. And yet consumers have not received many breaks on the cost of food. To make matters worse, the high interest rate policy of the Bank of Canada is crippling the viability of many farms and eating into the equity of many others.

These policies have devastated many rural communities. Farmers and rural businesses are feeling an unprecedented sense of insecurity. Farm families are being torn apart as they wrestle with the problem of transferring their farms to the next generation. As the countryside gradually loses its capacity to produce food, we Canadians may face a very real threat to the security of our food supply.

My government is committed to introducing policies which will strengthen the economic viability of farmers, their business partners, and their rural neighbors. We approach this issue from the point of view of social justice. Society must take responsibility for ensuring that farmers can make a fair return on their capital, labor and knowledge in return for the vital commodities they produce.

We also need to look seriously at the processing, food service and retail sectors to ensure that they are dealt with fairly by the new gov-

ernment. We intend to introduce policies and take action which will encourage the long-term security of our family farms and rural businesses. We believe that society as a whole can only benefit from the encouragement of strong, secure farms and communities in the countryside.

At the same time, we recognize the fundamental interdependence of the farm community and the processing, wholesaling and retailing sectors. The farm community needs the food industry to distribute its commodities, and without a strong farm sector, the food industry would become dependent on imports. We want to encourage a spirit of co-operation among all players in the food chain.

With this broad outline, let me discuss some of the specific initiatives we are now considering. In terms of social justice and economic viability, my ministry is now working on a process to broadly consult with farmers, rural communities and the financial industry on the question of long-term financing. We will soon be announcing a process to look into this question and obtain a consensus for future policy in this area.

The government is looking for fresh thinking on the whole issue of farm and rural finance. We welcome suggestions to increase the availability and reduce the cost of private-sector capital for farm and rural development. We are hoping that rural communities themselves will come to us with creative suggestions which emphasize self-help and mutual aid — the basis of the co-operative approach on which my party was founded.

The move by the cattle industry to establish feeder clubs is an excellent example of this approach. By pooling their resources into loan co-operatives, feedlot operators can obtain the leverage necessary to feed larger herds. This is particularly important for young operators with little equity. I am currently discussing this matter with my Cabinet colleagues.

My government also intends to strongly defend our system of supply management. We will oppose efforts to dismantle Article XI of the General Agreement on Tariffs and Trade, which ensures the right of trading partners to control imports under accepted international rules. This permits us to organize supply management systems for specific commodities. Next month I hope to lead a delegation to Brussels

We believe that society as a whole can only benefit from the encouragement of strong, secure farms and communities in the countryside.

for the GATT discussions on world trade. At those meetings, we will firmly press our position of support for Article XI, and for the Canadian approach on the issue of export subsidies.

We concur that it is important to work towards a global reduction in export subsidies for agriculture. However, unlike the free-trade approach of the U.S., we do not believe that there should be drastic, quick cuts in government support for farmers. The Canadian position — calling for a 50 per cent reduction in support — is a balanced, sensible approach. We intend to make our views known strongly to the GATT delegation.

While we want to be strong supporters of supply management systems, we also want to take a look at how these systems can be improved. We will be looking at ways to improve the economic performance of supply-managed commodities, and to make them more socially equitable for all the players involved.

As a rule of thumb, we want to encourage an atmosphere of trust so that farmers and food processors can work out their differences among themselves without excessive government interference.

In addition, my ministry has heard the extensive discussions by farm groups on the issue of safety nets for the grains and oilseeds sector. I look forward to discussing this issue in Cabinet.

A third area of current work in my ministry is consumer and urban awareness of the farm community and the food industry. I am becoming increasingly convinced that consumers must know more about how their food is produced — about the importance of the agricultural community and food industry to our well-being. As farmers well know, commodity prices are at historic lows. One of the ways in which producers can receive a higher return is by educating consumers on the importance of a domestic, locally-produced food supply.

Consumers are becoming increasingly concerned about freshness, nutritional value and other aspects of food quality. As these concerns grow, the demand for local meat and produce should also grow. The government wants to look at new educational initiatives to build awareness about Ontario food, so that consumers can make informed choices. This is just one way that pro-

ducers and food processors can receive a higher return from the market.

In terms of environmental initiatives, perhaps the most pressing is the question of farmland preservation. In many cases, this issue has generated more heat than light. In the Niagara region and elsewhere in the province, farmers, city people, and local politicians are re-examining their assumptions.

My party is a strong supporter of foodland preservation. But we cannot look at this issue in isolation. It is not fair — in terms of social justice — to expect farmers to be the poorly-paid custodians of agricultural green space around our major cities. We need to look at ways to improve prices and incomes for farmers so that farming becomes a viable choice.

Land use is only one aspect of the farmland preservation question, however. Equally important is the issue of farmland stewardship. Under this new government, I want the Ministry of Agriculture and Food to look at a number of ecological approaches to the sustainability of the agricultural system.

I want the ministry to work even harder to develop practices which conserve the soil, and which enhance yields without undue dependence on herbicides and pesticides.

We need to examine the entire area of farm management. We need to develop prototypes for alternative farming practices which respect the environment, as well as the health and safety of farmers, farm workers, rural residents and consumers.

But if these new practices are to work — if they are to be sustainable over the long term — they must be developed in consultation with the farm community. The only way that these new practices can become an accepted part of agricultural production is if they work for and with farmers — not against them.

One promising initiative in this area is the pesticide certification program, which is training farmers in environmentally-responsible pesticide practices. This is a move in the right direction. We can do more to ensure that our agricultural practices are environmentally-responsible.

I also want my ministry to look at the question of alternative fuels. The current situation in the Middle East is giving us all a heightened

We need prototypes for alternative farming methods which respect the environment and the health and safety of farmers.

awareness of the cost of fuel. With corn so plentiful, it makes sense for the ministry to examine the possibility of pilot projects to produce ethanol. This is one way of ensuring the security of our energy supply.

Finally, my ministry will be exploring the whole question of organic agriculture. As you all know, there is much consumer confusion over this issue. Work needs to be done on definitions for organic food. We need to develop a standard which both farmers and consumers can trust and understand. I am also aware of the efforts of other producer groups to develop standards in this area. We will be taking a close look at these.

Consumer demand for food grown without chemical inputs is growing. It is essential that the agricultural community and the food sector

mirror consumer trends in this area. That's why my ministry will bolster its research and extension into alternative farming practices. I am confident that Ontario farmers can become leaders in this area.

As you can see, this is an ambitious program. Our vision is to build a consensus in which farmers, rural people, food processors and consumers share a common view of the agricultural and food sector in Ontario, and across Canada. This is a vision which stresses co-operation, not competition, and emphasizes the right of rural people to share in the benefits of society, while urban people enjoy the fruits of the country. And finally, it is a vision which stresses the importance of living in harmony with the eco-system, and of building an agriculture and food sector which is environmentally responsible. (Y)

Changing demographics and future opportunities for the Ontario agriculture and food industry

The world's population is growing by 80 million a year, but our products are too expensive and too unfamiliar to exploit the new markets.

Lloyd Quantz
President, AgriTrends Research Inc.

I want to compliment you on the topic you have chosen for this conference because managing change is a very positive way of approaching the problems we are facing. Changes are accelerating in technology, in social areas, and politically. I see potential for continued dramatic change ahead. My job today is to deal with long-term change, questions of global trends. We are going to talk about economic forces which have massive business implications for managers like yourselves, as well as personal implications.

I believe we are now entering a period of major economic adjustment which will last for several years. The force and magnitude of fundamental changes in the Canadian and world economies will approach that of the 1920 to 1940 period. In the current policy climate Canada's chances of making the transition from a fringe isolated economy to a world integrated player are only fair at best.

The agriculture and food industry will require a new deal to survive and prosper in the next decade. I'll outline some of the factors which will affect Canadian and Ontario agriculture in the next ten years. These factors are classified as causes, consequences and complications. They are the logical derivations of some of the things we see today.

Some of the causes of significant impact in-

clude global economic and demographic patterns, Canada's baby bust of the 1970s and urbanization trends. Some of the consequences deal with the technology that will come into play; with the less developed countries' self-sufficiency in food; and with some of the farm diversification and community viability trends we'll be seeing in the 1990s. As well, there are complications which include trade rules, the environmental maze, massive debt restructuring and reorganization of our key institutions.

World population growth is over 80 million people per year, but it will mostly occur in places where our food products are too dear or too unfamiliar to find a market. Most of this growth will occur where agriculture is a tool of economic development and food self-sufficiency is the essential result.

The Asian market will be the key focus of this growth for the next ten years and beyond. But major food sales opportunities will be won only in highly-complex barter, and technology- and aid-related arrangements with these countries. Most of the growth will occur in Asia and in Africa, areas where living standards and wages are extremely low. Food prices are still relatively high, and these areas will see food production as a major economic stimulus.

There is also a major urbanization trend occurring. In 1950 only 17 percent of the world



Lloyd Quantz is president of AgriTrends Research Inc., a consulting company he started in 1985 to provide advice and analysis to leaders in business, industry and government. He holds a Masters degree in agricultural economics from the University of Alberta, and has held senior management positions in commodity trading and livestock development and marketing. He owns and operates a livestock ranch north of Calgary, where he lives with his wife and two sons.

population lived in urban areas; by the year 2020, 50 percent will be in urban areas. Food costs in those large urban areas are not much different from the costs in Toronto, Chicago and even Zurich. You have high markets relative to the wages that the people are being paid, and I maintain that we will not find markets for our rather expensive products in most of the growing world that will be around us.

**Historically, each time
cash returns to the
farm declined, so did
land prices.**

I will also refer to the low population growth in Canada. This is the result of a pill-induced baby bust. It will cause unprecedented distortions in production and consumption in the economy over the next two decades, although many

niche markets will be available to those who can find the right consumers and address changing definitions of quality. I maintain that personal values and ethics will be a growing market factor, along with health and environmental concerns, as an aging population looks for the meaning in materialism.

Lack of growth in consumption will increase the emphasis on quality and service. In the next decade we will find that a bulging population of seniors will be eating 30 to 40 percent fewer calories, have great health-related concerns; service and quality will be the key focus.

There seem to be some fundamental things we should take notice of as managers in our businesses and in our economy. We have to recognize that these things do have some impact. Let me talk about one that I see coming on us now. We may be going through adjustment right into the early and mid-1990s. My main point here is that we will make a bottom some time in the early 1990s before we can see sustained long-term, enduring growth.

In the agriculture sector, we have seen that the debt-asset relationship relates to inflationary trends and deflation. Certainly we are headed towards another debt-asset reduction in the agricultural sector. If you follow through the historical trends, each time returned assets declined we normally see a drop in land prices.

Particularly back in the 1920s and 1930s we saw some significant declines in returned assets — cash returns to the farm. In the mid-1970s, returns declined although our land prices continued to increase, at rates sometimes well above the inflation. Finally we had a major correction that occurred in the 1980s and I think there is some adjustment that is still going to be coming.

Now let us look at some commodity trend related things. Commodity price erosion is a real factor. Some of it is related to productivity improvement. We have had about \$1.70 per metric tonne per year decline in the real prices of corn. If you look at the productivity improvement that has come in production of grain corn, I think you will find that the declines are related to that. In real dollar terms, we may well see some more declines. In fact some of the very recent developments in biotechnology tell me that we will have a new round of productivity improvements, should they be fully commercialized in a more stable economic time.

Innovations and inventions occur sporadically, but they tend to be implemented in clusters during times of economic stability, when opportunities exist for new cost bases to be established and for growth to occur. I think you can look at the period from the 1990s to the year 2010 as a time when we will see a lot of basic innovations occur.

Finally let me comment on some complications. In agriculture we will see many non-traditional activities in the farming sector. We are going to see things that include re-definitions of farming versus manufacturing. We will see tourism versus farming, other income again versus farming, part-time farmers where part of the activity is in production, and other activities are involved in off-farm activities — some for survival but also for other professional pursuits. It will be a real challenge for financiers to understand this new breed of part-time farmers or what I choose to call 'the farmer'. He will not be necessarily small, but he will be a significant part of the industry and will have to be dealt with.

Another trend I see, a complication, is that industry organizations will be moving from a commodity-specific, producer orientation to marketing and management clusters within and across commodity groups. They will be more owner service-driven than lobby-driven, and closer to their customers than to the politicians. Most commodity organizations will be restructured in this fashion, because the policy-making function will have to demonstrate the ability to bring unrefutable expertise to the table, and a demonstration of member support through self-financing or through broad public appeal.

Government response in policy-making will

be no easier. Policy formulation will be increasingly global. Domestic policies versus international development will be at stake — food shortages in one country while consumers have to deal with the cost of food surpluses in the developed countries.

Consumer-sensitive, promotion-oriented marketing boards will survive, but supply controls will be eroded. Global food trade issues will eventually be resolved. Domestic policies which seek to protect high-cost industries relative to more competitive export industries will be increasingly difficult to maintain, and the central policy reality is that open markets will be relied upon for allocating profits and resources. We have not yet found a substitute.

Finally, environmental controls. I was treated to a fine, very delicious Ontario apple and I thought if I were to cut this apple into four quarters, one quarter could represent the part of the globe that is not covered by water. I am going to cut it into four more quarters, because of that land mass, fully three-quarters is covered by tundra, desert, ice and forest, unsuitable for

any kind of other production. Of the remaining quarter, let me take another quarter, because only about one-quarter of the remaining land mass is good quality; as we all know, not all land available for agriculture is useful for production. I am now holding up one sixty-fourth of that apple. Finally let me take just the skin, because we who farm all know that it is the top six inches of soil that we depend on.

We have a very fragile part of the planet to take care of, and we should not underestimate the concern that people will have in the future about that fragile environment.

The future, ladies and gentlemen is on the other side of the slope. Take a long hard look. Are you in for the long pull? How much risk can you handle? What things could be managed better? And what innovations should you be trying?

There is some untapped greatness in this country, in its resources, its people and its history. There is a chance to succeed, to avoid a crippling crisis. But it is going to require new teams, new co-operation and new commitment.



Competition at the farm gate

High interest rates were crippling Homeland Farm. So the partners found a new management strategy — and a new way to become profitable.



Lynne Cohoe
Partner, Homeland Farm Ltd.

Lynne Cohoe is a partner — with her two brothers — in Homeland Farm Ltd., a family farm which feeds 1,200 beef cattle, 300 dairy beef replacements, and 800 acres of cash crops. Ms. Cohoe is also the owner and operator of Homeland Grain Inc., a small elevator operation. Since 1989 she has also managed the Parrish and Heimbecker Ltd. elevator in Brantford. She was a member of the Beef Marketing Task Force which examined Ontario's beef industry, and is an active member of the Agricultural Research Institute of Ontario. Ms. Cohoe holds an undergraduate degree in Economics and Political Science from Waterloo Lutheran University.

This morning I have been asked to speak about how Homeland Farm is meeting and managing change. The approach we are taking is unique to our situation, but like many other business organizations, we have gone through a restructuring process in order to respond more directly and more quickly to changing circumstances.

Patterns and activities that had been reliable sources of income were no longer producing adequately to cover the costs of operation. When we looked at the situation, we realized there were two issues we should deal with: operational efficiency and profitability.

One of the root problems in the operation came from lack of management responsibility and leadership. We were a family-owned organization with three shareholders actively involved in the business. Each of us had an area of interest and responsibility but no one had overall control.

The designation and acceptance of responsibility was a first step in moving the operation to a more profitable level. The next step was to analyse the assets and liabilities of the company in terms of finances, physical assets, and personal skills. After we made those analyses, we were able to determine what our business options could be.

Our business had not prospered in the high-

interest period of the 1980s. We persisted in believing that the level of profitability that had come to cattle feeding in the 1970s would continue. When I look back now it is hard to believe that we expected to finance feeder cattle at 22 per cent interest rates, and sell that meat into a market that had declining demand for red meat, as well as a recession of the general economy — and make a profit. The review of our finances provided us with definite parameters to guide the decisions regarding the operations. Firstly, we had to reduce financing cost by owning less inventory. Secondly, we had to eliminate price risk to guarantee profitability.

Our physical assets were good but not very liquid. We owned approximately 800 acres of prime agricultural land, several houses, feedlots and other buildings. The cropping equipment was adequate but not new. Many of the equipment and building assets were livestock-oriented, and a related company owned and operated the grain elevator that adjoined the farm. Our key employees possessed good skills in their areas of expertise and displayed gratifying levels of commitment and loyalty to the organization. Again they were heavily oriented towards livestock feeding.

There were not a lot of choices. We had to control the cost, eliminate risk, reduce inventory and return to a sufficient level of profitability.

ity to finance our financial obligations as well as make improvements.

Our response was to become a 100 per cent custom feeding operation. Homeland Farm had custom-fed a proportion of the cattle in its feedlot since 1968. By doing so we could gain some economies of scale, and have specialized personnel dedicated to the care and feeding of the cattle without the need to finance 1,500 to 2,000 head. A realistic review of our recent experience owning cattle, instead of just feeding them, indicated that we were far better feeders than buyers.

The primary element of our plan for profitability was to focus on the beef feedlot operations. We aimed to increase our custom feeding business by building on our experience and a reputation for producing a product that was preferred by packers. We emphasize that we provide service rather than sell a commodity. We concentrate on meeting the nutritional and health needs of the cattle with well-defined feeding practices and feeding programs. Those technological advances which enhance cattle performance and improve cattle well-being are applied.

Every effort is extended to develop contact with our human customers. We want to know what they think of the service we sell. We always provide information on production cost or just talk about markets or cattle. The personnel who work at the feedlot are part of the record-keeping process and receive regular reports of cattle performance and cost, and are rightly proud of their contributions to the organization.

We are willing to accommodate all types of cattle in very rationed programs to maximize performance of non-traditional beef types in the feedlot. Being willing to feed this type of animal has resulted in a higher occupancy level over the past two years, which is reflected in lower overhead cost and better cash flow.

In the future there may be potential to produce specific types of cattle to meet exact process of requirement. Owners with specialized skills in assembling cattle, or other connections with suppliers and buyers of cattle, would bear the price-risk and financing cost; we would provide the investment in the facility and trained personnel to care for their animals.

The custom feeding business has been the

mainstay of our farming business over the past five years, but we are concerned about the changing circumstances of the Ontario cattle feeding industry, and question its long-term viability. Ontario can be efficient, but the potential loss of the packing industry will eventually mean higher transportation costs to more distant plants, and lower prices in turn to the producer. Other areas of North America appear to have significant competitive advantages: better economies of scale, different grading systems, and a larger pool of cattle to draw from.

In the course of rationalizing our operations we also eliminated a feeder pig operation. It was too small to justify a full-time employee, and it did not get the management attention it needed to be successful. So we have leased it to a related farrow-to-finish operation, thereby reducing operating capital requirements and receiving some income from lease payments, plus further simplifying our operations.

Our elevator operation also needs a large quantity of capital as well as close management attention. However it also returns respectable profits, so it justifies continued development and effort. Our facilities are smaller than the larger chain elevators we compete with, but by providing superior customer service, competitive prices, and alternative marketing options, we've always been able to compete with the larger better-financed grain handling companies.

However over the past several years there has been an increasing concentration in the farm supply and grain handling business. We were seriously concerned that a small independent elevator might be at a disadvantage, particularly if the larger chain elevators were to get into financing crops. Also we are not specialists in grain marketing. Most of the elevators we competed against have grain marketing departments that did nothing but sell grain.

Therefore we negotiated an agreement with a large grain company. They would sell the grain we purchased from our customers, and pay us a set margin on each bushel. Here the goal was the same: to focus management on the areas that could contribute most to income.

All these strategies at least partially achieved their objectives. We are still trying to figure out what to do with our cash crop land in order to

By providing superior service, competitive prices and better marketing options, we've been able to compete with larger operations.

have it make money. But the goal of having individuals responsible for specific parts of the operation has worked and, by directing our efforts to a limited number of operations, our efficiency has improved, our costs of financing have been significantly reduced, and profitability has been improved.

**Our approach has been
to concentrate on
providing special services
to other farmers.**

Our original feedlot was in need of major repairs. To re-invest in the lot as a beef operation was questionable; instead it has been converted into a dairy heifer raising facility, where we accept Holstein heifers from dairy farms at approximately six months

of age. They will move through six ration formulations before they return to their home farms four weeks prior to their first calf, at 24 months of age. At that point, when the cattle do return to their home farm, they will have reached their maximum growth potential and be ready to enter the productive dairy herd of their home farm.

By specializing in the raising of dairy replacement heifers we are able to deal with groups of cattle of similar age and size. For the dairy producer, using our service eliminates the need to have the facilities for growing heifers, and saves the time needed to look after them. Customer response has been positive from both large and small producers. Our emphasis will be on cattle performance, record keeping, customer contact, and communication. One of the major reasons for the success of the operation so far has been the dedication and interest of the individual responsible for the day-to-day operation at the heifer lot.

Over the past several years our approach has been to concentrate on providing specialized services to other farmers. We feel that by specializing in the care and feeding of livestock, the general level of efficiency will be raised in our own operation, benefiting purchasers of our services and providing income to ourselves. For us, these businesses have a good cash flow and provide a more even income.

However, it's certainly always interesting to review your operation. In preparing this I see all of the areas we haven't covered yet, the areas we need to refine. So there are opportunities for us to improve — our communications in particular, as well as our efficiency in cost control.

The pressure to improve management

practices will continue. Farms will become more specialized in order to take advantage of the technological advances available and also to focus on applying them to their situation to get the maximum return.

I also think farmers will have to be more responsive to the demand for their product. Previously we have all tended to grow stuff and assume someone will buy it. We are seeing that this is not always the case, and there are certainly opportunities out there in particular areas of specialized products, perhaps more in the livestock area than any where else.

As a result I think we might see more partnerships or special relationships between producers and processors to produce products for exact processor specifications. If we can get to this point, differentiation of the product may prove to be the best way to improve incomes for those farmers who wish to make the special effort.

I think the consolidation of farms and the trend towards fewer, larger integrated producers will continue. These operations have the benefits of economies of scale, reduced overhead per unit of production, and production efficiency due to equipment and systems. However, moderate and small size operations will survive if they can apply the benefits of technology. They have the ultimate advantage of superior management at the bottom level. Factors other than size will be significant for their success.

Farm business structures and traditional patterns of ownership will also continue to change. Farm operators will access capital based on cash flow rather than equity, and may not be as highly leveraged as previously. That certainly is one of our goals.

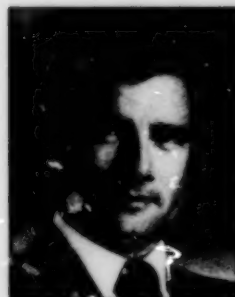
There is no single program that will enable farmers to compete successfully and derive their income from the marketplace. But self-reliant agriculture is going to be more and more important to all of us, if we are to remain in this industry. As the ability of governments to soften the effects of commodity price variations continues to decline, farm businesses have to make hard decisions, focus on what they do best, be aggressive, innovative and open to change.



Managing competitive adjustments, domestically and internationally

In the first five years of the 1980s, North American sales of new and used farm equipment fell by 60 per cent. But John Deere Ltd. survived.

G. J. Clark
President, John Deere Limited



Greg Clark is the president of John Deere Limited, and a director of the Canadian Farm and Industrial Equipment Institute. He was born and raised on a family farm near Bounty, Saskatchewan, and educated at the University of Saskatchewan. He began his career with John Deere Limited more than 20 years ago, and served in a variety of positions before he was named General Manager of the Canadian agricultural branch in 1980. In 1983 he was appointed president of the company. Mr. Clark lives on a farm near Grimsby; he and his wife have four children.

At John Deere Limited, we supply capital equipment to farmers — tractors, grain combines, haying equipment, planters, and much else. We have been at this trade since 1837, when our blacksmith-founder, John Deere, developed a self-scouring steel plow with a uniquely curved design which kept dirt from sticking on the blade and dropped the soil cleanly to the side of the furrow.

The first recorded shipment of John Deere goods to Canada arrived in Winnipeg in April, 1878. Today, we have three main Canadian operations, a sales branch, or company-owned wholesale distributor, at Grimsby, a second parts distribution outlet at Regina, and an implement factory at Welland.

One thing our age tells you about John Deere is that we have what I'll call staying power — through the good times, obviously, but also staying power over the course of 153 years through various and sundry panics, depressions, recessions, and plain old garden-variety market collapses.

Not everybody has staying power, as the agricultural market collapse of the early to mid-1980s proved. There are probably a quarter-million fewer farmers in North America today than a decade ago. And in the farm equipment industry, famous old companies like International Harvester and Massey Ferguson survive

today in drastically different form. Only Deere and Company, among the major North American farm equipment companies, survived the 1980s intact.

We saved ourselves by changing — by reducing employment, downsizing factories, and increasing the application of computer-based technology. That sounds very dry and businesslike, as if a decade ago we had a well-thought-out strategic plan to modernize, especially manufacturing, and simply decided one day to implement it. The truth, however, is that the catalyst was sheer necessity, not sagacity.

In the early to mid-1980s, disastrous winds blew through the North American economy, winds whipped up by worldwide recession, inflation, and an over-valued dollar. Commodity export demand shrank drastically. Farmland values plunged and with them the net worth and borrowing power of hundreds of thousands of farmers. By 1986, industry sales of new and used farm equipment had fallen 60 per cent from their 1979 high. The upshot was a shaken farm equipment industry left with vastly more productive capacity than it needed.

At John Deere, these unexpected, unwanted, and unpleasant business circumstances turned out in the long run to be a blessing in disguise. They forced us to take drastic action in order to survive as an independent entity,

forced us to cut worldwide employment from 69,000 to 39,000; forced us to effectively mothball parts of some factories; forced us, perhaps most importantly, to embark on a strategy of focusing and simplifying manufacturing operations in order to be profitable at much lower levels of production. And, by no means last, forced us to re-examine some cherished notions about human relations in the workplace.

The most drastic action we have taken has taken place in manufacturing. It used-to-be, for example, that manufacturers tried routinely to make everything possible for their end products. A John Deere Tractor was not John Deere unless we made every last nut ourselves. Vertical integration, this was called, a strategy that worked well as long as our major competitors operated in much the same way, and while our factories were operating at full capacity.

But in the 1980s, while John Deere and its competitors were reeling from economic body-blows, manufacturing took on a new configuration. Rapid advances in the technology of information processing and communications shrank time and space. Global competition replaced regional competition. Focused manufacturing specialists increasingly sprang up, some inside North America, some outside North America. Many could design and manufacture something — valves, pumps, tubing, clutch packs — at high quality and better price levels than we could.

Changes in the manufacturing world like these, plus the absolute necessity to find profitability at lower sales volume, caused intense self-examination within John Deere, a process that continues today. We must constantly choose between making parts and components ourselves or having others make them for us. To make the correct choice on such crucial matters requires precise internal knowledge of strengths and weaknesses.

Last year, for instance, we began producing new combine models at the John Deere Harvester Works in East Moline, Illinois. Some of the gear boxes for these combines come from Spain, built by a division of a John Deere factory near Madrid. Previously, these would have been manufactured in the U.S. The operator's station for these combines is built in the U.S. — not by us, as had been customary, but for us by a spe-

cialist cab manufacturer. And we no longer mount combine tires on rims. This is done by a trucking concern, and delivered to us on a just-in-time basis, saving both labor and inventory costs.

Changes in component sourcing are undeniably important, as are changes in raw material sourcing, which have also occurred. But these changes are just one part of the manufacturing picture at John Deere. Everything that happens today in our factories, however hallowed or traditional the practice, is subject to change.

Not so long ago, a substantial amount of the green paint that distinguishes our farm machinery products wound up as sludge after the painting process, sludge that costs a couple of hundred dollars a barrel to incinerate. No one worried much about sludge and other by-products of the manufacturing process. Now, when we watch both obvious and less-visible costs with eagle eyes, and during an era of increasing public concern about the environment, we care deeply how much paint we use. The Harvester Works has installed an U.S.\$8 million electrolytic paint system with a 46,000-gallon tank large enough to submerge complete combine bodies. The system provides both efficiency and quality. It eliminates the need for paint sprayers, applies paint to a uniform thickness, improves corrosion resistance, and results in a high-quality appearance. Excess paint stays in the tank for re-use.

Cellular manufacturing is another concept for improving operating methods. This involves reconfiguring the shop floor so that parts with similar process sequences are manufactured in focused areas, or cells, which combine several operations in one location. The goal is to keep working on a part until it is completed. The advantages include a continuous flow of material, faster turnover with reduced material requirements, and improved quality control and worker responsibility.

Another area for improving manufacturing methods, one where Deere and Company is a recognized leader, involves computer-integrated manufacturing, or CIM, which entails tying together various computer technologies. The Harvester Works, for example, is equipped with seven numerically-controlled turret punch presses with lasers. Each machine cost nearly US\$ one million, and each has a 24-station turret for punching standard holes in flat sheet-metal blanks, along with a laser capable of cutting the most intricate shapes. An engineer

using computer-aided tools can modify a part design and electronically order the presses to carry out his or her instructions. This state-of-the-art technology eliminates set-up time and reduces scrap. Design changes can be made in hours instead of days.

Another type of manufacturing change being pursued by John Deere concerns the modification of traditional work practices. It is not too much to say that we are trying to establish a different culture, a different ethic, in our factories.

In the past, our product designers and manufacturing engineers had little more than casual interaction with each other or with the production workers who actually produce the goods. Product designers typically did their work and then in effect tossed the completed drawings over the 'invisible wall' that traditionally stood between design and manufacturing. The manufacturing experts then figured out how to do their thing. Designing for ease of manufacture was seldom considered. And it was rare indeed for the views of shop workers to be solicited on how *they* might contribute to the effectiveness of the manufacturing process or the quality of the product.

These old ways are fading in John Deere factories. Notice I use the present tense. Tradition dies hard. Still, despite sometimes resistant human nature, we are changing. Increasingly, we seek co-ordination and co-operation, not confrontation, in the workplace. Teamwork, in short. No longer do we ask machine operators, in effect, to park their brains when they punch in. We are trying to substitute a participative style of management for an authoritarian style. We are trying to involve people more in their jobs and to assume more responsibility for quality and productivity.

All of this, we feel, is essential in order to compete in today's global economy. All of this involves fundamental change in the corporate software: change in the corporate state-of-mind toward the manufacturing function; fostering an attitude of workplace co-operation; encouraging men and women to consider the person who will receive their work at the next station on the assembly line as the customer they must satisfy; sharing information and a sense of purpose with everyone in the factory.

These are not public relations gimmicks or morale boosters or happiness programs or examples of the latest management fad. They are instead some of the essential constituents of a

formula for competing effectively in the increasingly global economy of the 1990s, especially, in our case, for competing effectively despite markedly lower unit volumes.

Lower unit volumes and lower demand for agricultural equipment have also affected the way we market our farm machinery. Here, too, there are a number of used-to-be's that either have faded, or are giving way to techniques better suited to a changing marketplace.

For example, there used-to-be a full-line John Deere equipment dealer every 15 or 20 miles in the best farming areas of our country and the U.S. John Deere had about 1,800 North American agricultural and consumer products dealers in 1988. Now the number is around 1,650 and it will probably be 1,500 in a few more years.

It used-to-be that rows and rows of shiny new tractors and combines and other equipment adorned every dealer's lot. And it used-to-be that customers could special order big machines and get them in 30 days or less. These practices reflected a time when the measure of success involved how much equipment a manufacturer could ship. And they reflected low interest rates.

Today, however, the carrying cost for a single major machine like a four-wheel-drive tractor or our biggest combine typically exceeds a thousand dollars a month. These days, big inventory is out. What's in is matching production and shipments as closely as possible to sales, while maintaining low inventories of new machines at dealerships. What's in, increasingly, is rewarding the customer who places his equipment order well in advance of the use season.

We are free traders at John Deere. We see the Canada-U.S. Free Trade Agreement as a step in the direction of freer world trade. Free trade, as it affects manufacturing, is not really an issue because the farm equipment industry, by and large, has operated under a free-trade-like agreement since World War II. But the concept of free trade reminds us how important it is to be globally competitive. We in Canada, no less than farmers and manufacturers elsewhere, must be globally competitive if we are to thrive, not merely survive.



Rows of shiny new tractors used to adorn every dealer's lot. But now the cost of carrying a single machine can be more than \$1,000 a month. Dealers can't afford it anymore.

Linkages between public policy and agri-business in managing change

Business and governments both hate change. The unhappy result is that most change is unplanned.



Dr. Randall Westgren
McGill University

Dr. Randall E. Westgren joined the Faculty of Agriculture at McGill University in 1988, and is currently Associate Professor and Chairman of the Department of Agricultural Economics. He holds a B.Sc. in agriculture from Cornell University, an MBA from the University of Denver, and a Ph.D. in Agricultural Economics from Purdue University. Dr. Westgren has conducted research in the area of strategic management and organizational change in the food and agriculture sector. He now teaches a senior-level course in agribusiness operations, and a graduate course in agribusiness management.

This discussion will take the narrow definition of change to be some change internal to an organization in response to the general business environment. That is, we will only be interested in changes that arise from economic conditions, social trends, and similar stimuli inside business and government.

Change can be planned or unplanned. Planned change is a proactive decision to react to external conditions. Unplanned change is basically a response to the accidents of history and the side effects of decisions made or not made in the past. It is often the case that failure to institute planned change results in adverse unplanned change in the future.

It is a fact of life that organizations despise planned change. Businesses hate change. It upsets traditional market conditions, internal communications, corporate culture, and individual manager's power bases in the company. Governments also hate planned change. It stirs the electorate and the opposition. It causes large ripples of disruption in the activities of the bureaucracy that must execute the changes. Even the least cynical of citizens understands that changes in government policy makes one group of people (usually one's self) worse off, so as to enhance the position of another group.

Thus we get the unhappy result that most change is unplanned. That is, changes in the

environment make existing policies and strategies ineffective. A turbulent business environment renders products, facilities, and marketing strategies obsolete, resulting in unplanned changes to the marketing mix and the bottom line. The same dynamic environment drives a wedge between policy goals and current needs of target populations for whom the policies and regulations were written. The unplanned changes include bloated program budgets, policy anomalies among different governments, and obsolete regulations.

The Canadian agri-food sector is poised to absorb the consequences of drastic changes in the environment. The sector is obsessed with the effects of the Uruguay Round of GATT talks on the policy interventions of federal and provincial governments. The economic integration of Europe during 1992 is another shock to the business environment that engenders threat and opportunity for the Canadian agri-food sector. Further, it is likely that the current recession will exacerbate the effects of these socio-political phenomena. Budgetary pressures in government and business will force planned change to be quicker and oriented towards cost efficiency. Moreover, a recession causes accelerated unplanned change as the external environment delays new initiatives and erodes the effectiveness of existing activities.

The federal food policy review initiated in December is an excellent example of the first two steps of proactive, planned change. First, the need for change was recognized in the original documents prepared for the December meeting. Second, the eleven task forces formed for the review began the analysis necessary to planned change. The task forces also identified an extremely important component of the analysis: *resistance* to change. The task force reports to the eleven ministers of agriculture during the August meeting in Moncton reflected resistance to change by stakeholders in existing agricultural policies

Will the food policy review successfully complete the change process? The two steps that follow identification of the need for change and causal analysis are first, adopting a program of change and second, implementing change. Cynical observers of the review suggest that real, substantive change will not be adopted because of the disparate goals held by stakeholders in the agri-food sector; that is, common ground cannot be found to move from the status quo.

There is an undercurrent of change that is implied by Ottawa regardless of the substance of changes engendered in the task force deliberations. The federal government wishes to share more of the costs of income support, of enhancing competitiveness, and of market development with the agriculture and food production sector. In essence, a linkage is implied between the goals of government and the goals of producers, processors and marketers. This is a change in itself.

Historically, agricultural policy in Canada has been based on implicit conflicts among the stakeholders. Agricultural policy has been designed to buffer these groups from each other. In general, the policy structure in Canada is crop-specific, regional, and oriented towards providing platforms for confrontation between producers and the food processing sector.

Perhaps the item that was best received by the ministers of agriculture at Moncton was the call for increased collaborative relationships between producers, primary processors, and further processors in Canadian agri-food. The Task Force on Competitiveness identified this as a central focus to keep Canadian agri-food industries competitive in the global marketplace. The implication is captured in the following quote

from the task force report.

"The point is simple: processors need growers to progress, growers need processors, and primary processors need secondary processors. Their interests are mutual, not exclusive. Successful ventures are based on mutual trust and mutual respect and are undertaken with the expectation that all participants will benefit."

This is the basic argument put forward for increased value-added production in Canada. When basic commodity prices are stagnant or declining, we should attempt to extract more value from the global consumer by exporting processed products. This increased value is shared between the producers of the commodity and the value-adding processors. This relieves some of the burden on government for directly supporting commodity prices. Thus, the policy goals of government and the private goals of producers and processors are met with this collaboration.

To what degree should government abdicate its historical position as director and principal actor on the policy stage? Should government affect the nature of the stage manager and leave producers and processors to be the actors that review and develop regulations, initiate new market development activities, and share the costs and returns for collaborative effort? This is the position government has taken in many of the success stories of international competitiveness. Over a four-year period, 30 researchers under the direction of Michael Porter of the Harvard Business School looked at the conditions responsible for superior competitive performance among 10 important trading nations. In *The Competitive Advantage of Nations*, Porter relates that the engine for competitiveness lies with strong domestic competition and markets, collaborative relationships between suppliers and buyers, and superior human resources. The role of government is to facilitate these aspects of competitiveness and specifically to:

- avoid intervening in product and currency markets,
- deregulate competition (without abandoning anti-monopoly policies), and
- enforce strict standards for the environment and product safety.

Government cannot create competitive in-

The ability to compete grows from strong domestic competition, co-operation between suppliers, and superior human resources.

dustries. Only businesses can do that. Further, this is at the individual initiative of firms, not a group effort. By strongly competing against domestic rivals, industries develop the capability to compete globally. Behind protective walls, domestic industries become flabby, with bloated cost structures and undefined competitive strategies. Excessive government intervention leads to non-competitive industries.

The agenda for the agri-food industries is to find the means to build competitiveness in the face of CUSTA, GATT, and EC-92. Government needs producers and processors to suggest ways and means to de-regulate agricultural product markets to diminish market interventions that lead to uncompetitive products. The easy job will be to identify anomalous regulations that confuse interprovincial trade and trade across the US-Canada border. The harder job is to find ways to extricate the government from product and input markets so that the price signals we receive from world markets can translate into action on Canadian farms and in Canadian food plants.

Perhaps the biggest challenge to Canadian agri-food industries and governments is to develop effective public and private policies with regard to the agricultural environment and food product safety. While it is certainly the respon-

sibility of government, especially at the provincial level, to develop environmental policy, it is up to agricultural producers and processors to be seen by consumers as actively involved in promoting a cleaner environment and a wholesome food supply.

Farmers and food companies are convenient targets for pressure from environmentalists. People have an intimate, ongoing relationship with food. They rebel at the thought of adulterated foodstuffs reaching their children, pesticide poisoning of lakes and rivers, and similar actions that can be identified as problems with the agri-food system.

The more consumers are ignored in their specific and general complaints about food safety and environmental degradation, the more likely that they will seek omnibus action by government. Proposition 128, the Big Green initiative in California, is such an omnibus policy. If it passes, agricultural producers and food manufacturers will be faced with massive changes in production practices. This is a grass roots political reaction to perceived inaction by government and industry to specific problems in a long list of environmental areas: auto emissions, water pollution, offshore drilling, pesticide misuse, toxic waste dumps, and so on.



Impact of U.S. environmental agricultural policy on Canadian agricultural policy

For most of the 1980s the U.S. Environmental Protection Agency focused on risks to human health; now it is developing conservation programs with the U.S. Department of Agriculture .

Robert Wolcott
Environmental Protection Agency



Robert W. Wolcott is Director of Water and Agriculture Policy in the Office of Policy Analysis, an arm of the U.S. Environmental Protection Agency. He has previously served as policy advisor to the Administrator of the EPA, and as Director of the Public Interest Economics Foundation. His current responsibilities involve the integration of agricultural and environmental policies. He also serves on a Presidential Task Force to develop a new federal forest management strategy. Mr. Wolcott is a Ph.D. candidate at the University of Cincinnati.

I would like to share with you today some perspectives and some reflections on agriculture and environment in the U.S., and how our recent history and policy could affect these issues in Canada. First, I want to place the issues in perspective by telling you where we have been and where we are going with environmental management in the U.S., and to tell you how these trends led to our agriculture and environment initiative at the Environmental Protection Agency. I will also describe how the policy, cultural and institutional context of agriculture in the U.S. has actually facilitated this effort and what I think will be the beneficial results. Finally I will discuss how this entire endeavor comports with an emerging dual theme of environment management in the U.S., which is to focus first on relative risk, and secondly on pollution prevention versus the clean-up of the residuals after they have moved through processes and biosphere.

Allow me to go back about 20 years, to the origin of the formal environment movement in the U.S., to walk you through the evolution of that and how it comes back to agriculture and how that might come back to Canada. Back in the Earth Day era and the beginning of the U.S. EPA in 1970 there was a rush to legislate — we had a Clean Air Act that came out in 1972, and a Water Pollution Control Act, a Solid Waste Bill,

a Pesticides Bill — and the EPA dutifully wrote regulations, and essentially administered these mandates as they came to it.

These mandates were very media-specific — by that I mean air, water, land — and they were focused on process, as distinctive from the environmental result. By process, I mean the process of issuing permits, the process of bringing enforcement actions. There was also a good deal of federal funding for the water pollution control effort as well as the clean air effort.

There were clearly some problems that emerged from this fabric. It was an extremely costly and, in retrospect, inefficient way to approach the problems that we then knew about, much less the problems we have come to know about since. We focused more on moving pollutants around within our biosphere than we did on reducing their inherent toxicity or their exposure to critical populations. As a result, we failed in large part to recognize the cross-media nature of the environment, and felt prey to the perversities and policy anomalies that came forth. In large part, we were rearranging the chairs on the Titanic in a highly defensible and analytical way.

In the late 1970s and early 1980s the phrase, "hazardous waste" emerged. Laws evolved to address our problem of toxic hazardous waste: section 1-12 of the Clean Air Act in 1977, solid

waste and hazardous waste management legislation, the Toxic Substances Control Act, and what we call our Super Fund, which is essentially a program of national anger towards hazardous waste.

The effect was to shift the focus away from the conventional environmental problems to what I think many now understand to be the

pursuit of zero risk. It was also a dominant focus on *human* health as distinct from ecological or environmental phenomenon. It was extremely costly to administer and implement.

In the mid 1980s the policy office of the EPA undertook a path-

breaking study called the Comparative Risk Study, which asked some fundamental questions. What is your problem? How big is it? How big is it in relation to what you are now doing? How are you now spending your money and would you like to change?

It was interesting what popped out. In the highest category were issues like pesticides in food, the conventional air pollutants, climate change, non-point sources, discharges into surface waters. The category that seemed to rest comfortably on the floor was the hazardous waste. We quickly looked at our budgets and found we were spending 90 per cent of our resources to control two percent of the problem.

We needed much more of a results orientation for our agency; and the government needed to look much more closely at pollution prevention, as distinct from imposing very large costs to do end-of-pipe treatment. We needed a stronger market orientation to build greater efficiency into the administration of our programs. As a result, a follow-up study was commissioned, which was undertaken by the science advisory board of the EPA.

The results were comparable with the prior study but what leaped out was the real failure of the agency to address ecological phenomena of practically any kind — in large part, to have somewhat abdicated the duties that would seem inherent in something called the Environmental Protection Agency, as distinct from a cancer management agency.

We needed to attend a good deal more to species diversity, habitat alteration, and focus more on climate change. Some of the other items that were prominent were stratospheric ozone

issues, and conventional air pollutions. In the high medium category were the issues involving pesticides and herbicides, nutrient loading to surface waters, and non-point sources of pollution generally. In the low category were ground water, hazardous waste, radio nuclides and others.

Now how does all that relate to agriculture and what might it mean for Canada? The high relative focus on habitat alteration, on ecological phenomenon, on pesticides and herbicides, on non-point sources of surface water pollution — in particular, nutrient loadings — were obvious to anybody observing those results. At the same time we realized that this concentration of risks presented a great opportunity. The nature of the agriculture sector and its institutions allowed the principles of efficiency, pollution prevention and results orientation to be addressed.

This led to the EPA Agriculture and Environmental Initiative, in which we co-operated very closely with the Department of Agriculture. There was a major conservation provision that called for a conservation reserve program, conservation compliance program, swamp-buster program to protect wetlands, a sod-buster program to protect highly-erodible land, a conservation easements program to allow land to lay fallow.

We focused a great deal on targeting the Conservation Reserve Program. Basically this is a vehicle which allows 40 to 45 million acres of highly-erodible land to be placed in conservation with permanent vegetative cover and with compensation to producers on the basis of the implicit rental rate. It would be operated on voluntary basis — that is, a bid system. Currently there are 34 million acres enrolled. Of the 430 million acres of cropland in the U.S. about 129 million are considered quite erodible. We also focused quite a bit on enforcing the swamp-buster program, which basically precludes producers from receiving any form of farm support if they newly drain wetlands, and on targeting low-input and sustainable agriculture research.

We had a great deal of success. We brought more than 3,000 miles of stream or river frontage into the filter strip program, whereby vegetative filter strips 50 to 100 feet wide were placed along streams and rivers. We feel this is probably the most effective non-point source

We were too focussed on hazardous waste. We found we were spending 90 per cent of our budget on two per cent of the problem.

control instrument available today, one which may be applicable to Canada.

Our principal targets in current legislation are to inject much more flexibility into our commodity programs so they allow more rotation — corn in the Midwest is a particular concern — to increase and maintain the low-input and sustainable agriculture research program, and to adopt an organic certification program. We especially want to develop better data on input use through mandatory record keeping, particularly for the restricted chemicals.

We held swamp buster intact and expanded the penalties for non-compliance. We cleared up some of the definitions, which I think would be very important here in Canada as well. We held sod buster intact to preserve and protect the highly erodible lands that are not yet tilled. We put in place an agricultural resources conservation program which creates a six million acres targeted conservation reserve program. We also put in place a one million acre wetland reserve program, as well as a water quality incentive program which provides up to \$3,500 per farm for producers to comply with environmental standards. The goal is to have 10 million acres in that program by 1995.

Now what facilitated this coming together? The key factors behind this coalition of institutions to reach that final result was first a clear recognition that there was an issue. There was a problem which everyone could recognize. Secondly, there was consensus that agriculturally-related discharges, especially non-point source loadings, were the binding constraint to the achievement of water quality standards in over 60 percent of our impaired waters. Thirdly and most critically, there was a real mutuality of concern between the producers and those who are seeking an enhanced quality of environment.

(The critical factors the environment community is seeking to protect are the factors of production which producers have relied on for hundreds of years. And farm families in rural areas understood that they were incurring the immediate and near-term risk to their drinking water.)

Fourthly, institutions within the Department of Agriculture had fostered this perspective for a number of decades, and that made it much easier to bind together the intentions and ac-

tivities of the environmental institutions with the agriculture sector and agricultural institution.

There are two more. One is the comprehension on the part of environment managers that agricultural producers are unique, because they knew something about what they are producing and how they were producing it. Farmers know what they are using, at what rates, why and for what reasons, and it is the respect that is held for that understanding that has bound together some of interests in Washington and elsewhere. Finally the focus on the prevention, and the recognition that the solution to agriculturally-related environmental problems is rooted in rational economic prevention.

What could this mean to Canada and what suggestions might I have? I can give you a few themes. First is an absolutely vigorous pursuit of a market-based orientation. We have found, in the States, that if we had simply unleashed the forces of the market in so many different situations we would be freed from these bonds of irrationality. We are forcing our producers to behave in biogeophysically irrational ways.

Secondly to avoid — and just trash — the whole notion that there has to be a stand-off between the environmental and the agricultural communities. There is in fact a tremendous opportunity for linking and binding. The

mutuality of concern and the mutuality of incentive has at least allowed us to be directionally correct in the States. I think there has to be however a combination of carrot-stick phenomenon, which compensates producers for putting land into conservation, while imposing penalties for environmentally-damaging actions. Finally to de-couple payments from yield histories, and from the land-improvement criteria.

The best we can do now is to at least stop doing stupid things. I think the community has to recognize the opportunities in markets for what are perceived to be high-value commodities — the "clean" foods. In the States, the marginal rates of return on those forms of production are extremely high.

I think there is an obvious role for a conservation reserve type program in Canada, whether you want to call a conservation reserve program or an environmental reserve program.

Trash the idea that there must be confrontation between advocates for the environment and the agricultural community. They share many mutual interests.

I think it is the absolutely key link to solidifying the mutuality between the communities. We don't tell a producer that he must not touch that wetland if it has been previously cropped. You enter as a bidder and pay a fair implicit market rental rate on that land hopefully leveraging any federal, and provincial resources with private resources.

We think it is a way of defusing a great deal of tension, and in particular targeting the resources to the most substantial problems. It can also be a useful factor in supply management objectives and in income maintenance objectives, particularly through the stressful times. I believe that we can actually exploit some of the downturns that are forthcoming instead of simply hunkering down, trying to withstand them.

I think there are clear indications that urban communities are willing to pay for the quality of the environment, and their willingness to pay might be a subtle, implicit form of taxation that moves directly into the rural agricultural sector in the form of conservation reserve program payments.

To summarize: environmental issues and the agricultural issues related to it are here to stay. Secondly, there is compelling need to avoid polarization, to foster integration and mutuality. I think we have to advance the market orientation of each policy we take. The conservation reserve program is an example; it is essentially a market-based vehicle for going out and buying the largest amount of net social welfare we can get with every government dollar.



How New Zealand is managing change

Reducing farm subsidies helped improve New Zealand's agricultural efficiency. But protectionism in world agricultural markets imposes unfair barriers to trade and threatens to devastate the national economy.

Owen Jennings

President, Federated Farmers of New Zealand Inc.



Owen Jennings is the President of the Federated Farmers of New Zealand. He was born in Karamea, New Zealand, and after completing university worked the family farm with his brother and parents. He later bought 760 acres of mainly undeveloped land adjoining his father's farm and brought it into production. In 1989 he purchased 150 acres in Nelson, where he now lives. He has been actively involved with the Federated Farmers of New Zealand since 1965, and was elected president in 1990.

New Zealand consists of two small islands, the size of your Great Lakes, tucked into a remote corner of the world's largest ocean. We are 70 per cent dependent on exports in agriculture, yet in New Zealand we produce less than two per cent of the world's milk, less than one per cent of the world's meat and less than half of one per cent of the world's grain. We are world leaders in pastureland management, but have less than one third of the sheep of Australia. Europe's largest grocery multiple has a turnover three times the size of the entire New Zealand economy.

For 120 years this little colony, settled in the 1840s, provided Britain with cheap food — at a rate of return that took New Zealand's standard of living to second or third in the world stakes. They were halcyon days. No inflation, no unemployment, and only Switzerland and the United States could challenge us in terms of quality of life.

Several things changed all that. Britain needed to join the Common Market and Europeanize: overnight we lost an 80,000-ton cheese market, and within a short time a 120,000-ton butter market, as well as a significant portion of our sheep-meat trade.

Even more devastating, as New Zealand strove to locate and consolidate new markets for its agricultural products we found ourselves

competing with heavily-subsidized goods from the over-production of Europe and the United States. New Zealand was penalized both by lack of access to the wealthy nations' markets, and hounded out of developing markets by those same countries who arrogantly dumped their surplus production.

Back home, the earlier years of plenty led to sloppiness and bred inefficiency in government, in business and in agribusiness. We chose to subsidize manufacturing, and the cost of subsidizing manufacturers, whose very existence was questionable in the first place, fell heavily on the primary sector of farming. Those subsidies became a major drain on exporters of agricultural goods. Meanwhile the size of government grew, followed by burgeoning taxation and a deficit that reached nine per cent of GDP.

While the rest of the world adjusted to oil shocks and inflation, New Zealand tried to insulate itself from reality, erecting protective fences, licences, and subsidies in every sector. We regulated interest rates, banks in every aspect of their activity, key industries, airlines, truckers, taxi drivers, shopkeepers and fishermen. Few economies outside the Iron Curtain could boast such controls. National debt increased, inflation internally reached four to five times that of our trading partners, and our international competitiveness eroded dramatically.

Our currency became cruelly over-valued, and internal cost structures, like transport, processing and local government, escalated to a unprecedented levels.

Subsidies were introduced to farmers and became widespread and influential. Sheep farmers received 40 per cent of their gross income from direct supplementary payments, as well as indirect assistance on fertilizer, research advice, training, etc. To offset increasing costs and diminishing returns we increased production, until one farming family can milk over 300 cows or manage 4,000 ewes without additional labor. The consumers' interest was ignored as farmers directed their efforts towards chasing the subsidy dollar, irrespective of the market signal. We started producing sheep-meat in excess of the market requirement, only to find it having to be rendered down and disposed of at minimum returns.

Both the national and agricultural economies drifted into a downward spiral that pointed toward a banana republic status, with inflation exceeding 20 per cent and international debt the highest per capita in the OECD. The isolation and protection was damaging, while the subsidies had become too expensive and distorting to maintain. Clearly it was time for a change.

In 1984 a Labor government was elected, a traditionally socialistic party that had historically increased government involvement in the economy. However, this time economic reality and international pressures forced the new government to take a totally new approach. Faced with an exchange rate crisis, the new government devalued the New Zealand dollar

by 20 per cent, and immediately embarked on a radical reshaping of the economy. Its stated objective was to improve the efficiency of resource use in an attempt to improve productivity, and reduce inflation and interest rates. It deliberately relied on the market mechanism to achieve

these objectives, rather than the more traditional Labor government approach of regulation and protection.

Farm subsidies were virtually abolished overnight, the financial markets were deregulated and protection for the manufacturing sector was subjected to steady reductions. Over the next few years virtually every sector of the

economy was exposed to more market discipline, including the government's own operations. The improvements in overall productivity and efficiency were spectacular. For example, the State Coal Mines, which were corporatized, halved their workforce and increased output by 100 per cent.

Unfortunately the government failed to address two critical areas, the labor market rigidity and its own expenditure. The latter, combined with the expenditure of the quasi-government agencies and local government, now represents about 60 per cent of GDP. This has placed tremendous pressures back on the export sectors through high interest rates and a high exchange rate, and until recently, high inflation.

Although the farming community has been highly critical of the sequencing of the government's reforms, which placed undue pressure on the tradeable sector, and the government's failure to address some areas effectively, generally farmers support the changes and have no desire to return to the previous regime. While some accused us of perverseness and dereliction as farm leaders, there were sound reasons, now proven, why change was both inevitable and beneficial.

First, farmers' production decisions are now driven by the market place and not by politicians' and bureaucrats' predictions of market trends — or, more correctly, by politicians' desire for electoral favors. Farmers have improved their business skills and have also streamlined their own operations. Costs on-farm, and between farm gate and consumer, have been slashed. Reductions in killing charges and port charges have come down by over 50 per cent in many instances.

A second benefit of the changes is that New Zealand farm exports are no longer under threat of countervailing duties. A United States countervailing duty on our lamb exports was largely negating any benefit from government subsidies in New Zealand.

A policy of subsidizing farming was unsustainable in an agricultural economy such as ours. It is simply not possible for three million people to subsidize 60 million sheep and six million cattle. Not only were the levels of subsidies imposing severe strains on government's finances, they were a major contributor to New Zealand's

Total government spending now amounts to about 60 per cent of GDP; the results are high interest, exchange and inflation rates.

high interest and inflation rates.

In summary, structures and mechanisms have changed, but more important, attitudes have changed. We now live by the market, and it is revolutionizing farming, taking us into new markets, new products, new opportunities. It is attracting superior management, quality research and development, skilful promotion and marketing. The industry is not resisting further change. It is not even just accepting change, it is making change happen.

On a more global note, we must all think seriously about the detrimental effects of agricultural protectionism threatening free trade itself and harming the less developed agricultural economies of the world. It is also time to consider the devastating effects which protectionism in the industrialized countries is having on the environment — not only in the countries practising high protectionism, but in the Third World countries.

The ability of the lesser developed countries to service, let alone pay, their substantial debts — estimated at approximately U.S. \$1.265 billion — is made difficult if not impossible by their reduced ability to earn foreign exchange because of agricultural protectionism. A major United Nations study of world environmental issues calculated that agricultural protectionism by the industrialized countries is costing developing countries about U.S. \$35 billion in lost export income per year.

At the same time the Brundtland Report also pointed out the devastating environmental impacts of agricultural protectionism in both the developed countries and the developing countries. In the industrialized countries, the effects of this protection manifest themselves in nitrate poisoning of water resources, problems with the disposal of animal effluent and changes to the landscape. In addition, the outbreak of BSE in cattle in the United Kingdom and swine fever in Belgium can be directly attributed to intensive farming promoted by high government subsidies.

In the developing countries the environmental degradation is even more serious. Low

farm incomes, due largely to products from those countries being shut out of the more affluent markets, means that in many cases peasant farmers are forced on to more marginal land, with resulting desertification and deforestation.

From New Zealand's point of view, we do not demand that government support for farmers in other countries be withdrawn overnight, or indeed at all. If any country — for social, political, or any other reason — wants to provide income support for their farmers that is their business. All we ask is that the support be provided in a way that minimizes the adverse effects on countries which rely heavily on unsubsidized agricultural exports — to use the GATT jargon, uncoupled support. By removing the support from the product, farmers are no longer obliged to increase production to receive the support.

The GATT negotiations, due to conclude in Brussels in December, are of critical importance to countries such as New Zealand. We face a massive overseas debt burden, our dairy farmers face a NZ\$40,000 drop in income this year, and our sheep farmers face the prospect of their lowest level of real income in 25 years. This critical situation results directly from our inability to sell our unsubsidized agricultural and horticultural products in overseas markets at remunerative prices because of unfair protectionism. Not only is this totally unjust, it contributes to a slow-down in overall agricultural trade; it threatens bankruptcy for many of our farmers and depression for not only our rural communities but for the whole country.

We firmly believe that an orderly roll-back of agricultural protectionism throughout the world will lead to an increase in overall prosperity. Empirical evidence demonstrates the next major step forward for growth and an increase in the world's standards of living can be achieved by liberalizing agricultural trade. As our experience shows, it can also result in a stronger, more innovative, and certainly more independent farming sector.



The GATT talks are of crucial importance for New Zealand; continued unfair protectionism may mean bankruptcy for many of our farmers.

Implications of managing change on the agriculture and food industry

Canada has developed different policies for commodities traded in the world market and those produced for domestic consumption. Changing those policies will have social and human costs.



John Core
Chairman, Ontario Milk Marketing Board

John Core, a dairy farmer from Wyoming, Ontario, is the Chairman of the Ontario Milk Marketing Board. He holds a M.Sc. in agriculture from the University of Guelph, and was a lecturer at Ridge Towns College of Agricultural Technology before he turned to full-time farming; he and his two brothers milk 70 Holsteins on a 600-acre farm. Mr. Core has been active with the Milk Marketing Board since 1981, and was elected Chairman in 1990. In that capacity he serves on the Advisory Committees for Milk, Cheese and Transportation, as well as the Canadian Milk Supply Management Committee, where he represents the interests of Ontario milk producers.

I will try to do three things that the conference organizers asked me to do: talk a bit about what we heard earlier today; talk a bit about managing change generally in agriculture here in Ontario; and then talk specifically about the commodity that I represent, the Milk Marketing Board of Ontario.

The theme running through this conference seems to be that we must be more competitive, whatever being more competitive means. My concern is that when we talk about agricultural policy we tend to lose sight of what agricultural policy is all about. Agricultural policy, as the minister mentioned this morning, has as much to do with social justice in rural communities as it has to do with who can produce a particular agriculture commodity more cheaply.

In Canada we have been developing a dual approach to agricultural policy. We are developing a process that recognizes that we will attempt to trade some commodities in the world market, and some commodities which we choose to produce for the domestic market. We have a dual-process agricultural policy.

Managing change in agriculture is nothing new. We have had to manage agricultural changes as long as agricultural production has been a part of what we do. Change is something that happens every day, and we all manage that change as best we can. Some commodities

manage that change a little more effectively than the others.

I think Canada is at a cross-road, not only in agriculture but in our whole function and structure as a country. I see Canadians struggling with the decision: do we want to have the same social conscience for which we have been known around the world, or do we want to be a country that is driven by the bottom line? Are we going to be driven by what we perceive to be the new economic realities of the world marketplaces? Are we going to give up the social conscience that we've had, to be a country driven solely by the profit potential?

I think our agricultural policy must continue to reflect the fact that we have to have compassion for people who produce agricultural products. We have to understand that as change takes place in the processing sectors and the manufacturing sectors, in our country and around the world, we are going to displace people. If we are going to achieve those productivity gains all of us think are coming, how do we address the social consequences of those major changes in productivity? Our agriculture policy makers have to understand what those implications are going to be.

When Mr. Clark described this morning how John Deere had adapted to the new realities in agricultural production in Canada, he mentioned

that their world-wide operations had reduced the number of employees by 30,000. Those are the social consequences we have to think about.

We could produce milk in Ontario from cow herds numbering 300, if we eliminated 8,000 milk producers in the province. We can do it. The technology needed to produce milk off 300-cow herds is not a big thing to deal with. It can be done.

But what are the implications for the rural social structure if we do that with milk production, and we do the same with pork production, we do the same with beef production, and all those other commodities that are produced in rural Ontario. Do we want that kind of massive social change to take place? We have to ask that question, because that's part of what agricultural policy is all about.

We're talking about managing change. What disturbs me more than anything is that as a group of leaders in agriculture we spend our time talking about what the other commodity is doing that we don't think is right. We spend our time saying "look, we're going to become more competitive in the world, but the only way we're going to do it is to get rid of supply management in Canada." Then people in supply management sit around and we say "look, we think supply management is the solution to the problem. If the rest of the world will just get on-side with what we want to do, we'll solve the problems."

Every commodity in agriculture is going to choose a different method of marketing, because every commodity has different characteristics. In the dairy industry we have a commodity that has to be marketed fairly quickly, especially fluid milk. It doesn't have a long storage life. Five per cent of the total production in dairy products around the world is traded. Five per cent. It's different from the grain industry. It's different from the red meat industry. Why do we think we have to have the same method of marketing for every agriculture commodity? It doesn't make sense.

We spend so much of our time and resources squabbling among ourselves, trying to find the best way to market. We lose opportunities to make change happen. We've had an opportunity given to us in the last six months to perhaps create a strong general farm organization in this province. But it has deteriorated again into finding all the reasons why it won't work, instead of finding the reasons why it will work. We've got to look at those opportunities, and seize them. We have to manage the change,

and manage it to our interest as agriculture producers.

I've been talking about the dual policy in supply managed and non-supply managed commodities. I want to expand on that. The reality is that most countries in the world want to protect something in agriculture. The Americans or the Europeans put protectionist policies in place to protect their domestic industries; hopefully they can also go out there and capture a share of other people's markets as well.

But in a country like Canada, which has such a small share of the world market, why do we put a protectionist policy like supply management in place? One of the reasons is that we're protecting our industry from the predatory practices of other treasuries around the world.

We can't compete with the treasury of the United States, or of the European Economic Community. If we want a dairy industry in this country, recognizing the higher costs associated with our production, we're going to have some type of border protection, and in the dairy industry, that translates into border protection as part of a supply management program.

People look at the Canadian dairy industry, and they say "look at this terrible supply managed industry in Canada, look how protectionist it is. We've got to dismantle this. We've got to be like the Americans." The gall of it. The gall.

We put yogurt and ice cream on our import control list. We put about 340 tonnes of ice cream on the import control list. The Americans said: "You can't do that, Canada. That's too protectionist. We'll challenge you at a GATT panel." And they did and they won. Do you know what *their* import quota is on ice cream? One hundred tonnes. We're too protectionist at 340 tonnes of ice cream. And if you think the United States of America is going to dismantle their support for their domestic agriculture industry, you're in dreamland. It's not going to happen.

Are the Europeans going to do it? What do you think they're squabbling about right now. They were supposed to table a proposal for GATT on the 15th of October, and unless it happened today they haven't done it yet.

The Americans entered into this round of discussions saying "we're going to liberalize

If we want a dairy industry, we have to have some type of border protection. In Canada, that means supply management.

world trade." But don't expect that you're going to be able to do that and then have all the policies of hidden protectionism that you've had in the past.

I heard Clayton Yeutter at the outlook conference in the U.S. last fall say "I don't understand why you think I'm going to lower the level of agricultural support in this country. I've never said that. What we're out to do in this round of GATT talks is dismantle export subsidies. I'm not going to do anything on the domestic side."

Now what have you heard the Americans say? They say "everything's on the table. We're prepared to give up our waiver. We're prepared to address the stabilization programs and land set aside programs and conservation programs. Everything's on the table, except green programs. De-coupled programs."

But de-coupled programs form most of the internal domestic policies they've got. They will argue those are de-coupled programs. There's no intention to dismantle the agricultural policy of the United States. What they hope to achieve is to lower export subsidies by other countries so they can then go in, with their domestically-subsidized production, and grab other people's markets.

The Canadian dairy industry can't compete against an industry that is 10 times bigger, that receives 25 per cent of its income from hidden subsidies. It's unrealistic. And if we think GATT is going to bring about some major change, so we should offer up a supply-managed commodity like the poultry industry or the dairy industry in order to garner something for another commodity, that's not the reality. We've got to understand that there are forces at work in the grain market, there are forces at work in the

red meat market, and there are different forces at work in the dairy industry. There's no reason why we can't have a dual policy position for agriculture in Canada.

We talk about lowering our commodity prices at the farm so our further processors can be competitive. We're prepared to acknowledge that the realities of the free trade agreement will bring about change in our relationships with further processors.

If the Government of Canada in its wisdom

chose to sign that deal, and there are industries that are going to be put at a competitive disadvantage because of that, then we as a mature industry are going to have to deal with that over time as it becomes a problem. But don't expect us to say we will lower the price of a commodity to a further processor now, even though there is still a 12 percent tariff in place. We'll deal with the problem when it becomes a problem, not because we think it might become one, four or five years from now.

Do you realize there are 20,000 tonnes of cheese coming into Canada right now, in this protectionist dairy industry that we have? Altogether there's \$137 million worth of dairy products imported into Canada every year.

In these GATT discussions to get fair rules, we've recognized that we may have to give a little more access to our market. We already import 2.9 per cent of our product into Canada. The Americans and Europeans are around the two, two-and-half per cent level. We recognize we may have to import more in the future. But we don't have to dismantle the domestic industry in Canada to meet a small market requirement. That's managing change: identify the problem, recognize when it's really going to be a problem, and then deal with it and find a solution. But don't dismantle a domestic program simply to deal with a small problem.

I'm tired of people saying supply-managed commodities are doing something wrong, they are distorting the marketplace. I heard the representative from John Deere say the solution to some of their problems was controlling their inventory and planning for what their requirements will be a year from now. That's what supply management is. It's matching market requirements with production off the farm — minimizing those small surpluses that cause devastation in agriculture.

I read about the agriculture economists who say if we dismantle all protectionism around the world, if we can freely trade in all agricultural products, we're going to be able to get higher prices for the suppliers that are left. The consensus is to lower the protection — too bad we're going to lose maybe 50 per cent of the agricultural producers around the world and half the processing companies, and all the infrastructure that supports that, too bad we're going

**I'm tired of people saying
supply managed
commodities are distorting
the market. They only match
production to demand.**

to lose them, but there's going to be some winners, and when we're all done, the winners are going to make more money.

The only way they're going to make more money is by shorting the marketplace. In a free market economy, the only way you can drive prices up is by shorting the market and creating demand that people can't respond to quickly enough. Do we want that kind of situation around the world when we've got millions of people starving?

Maybe we have to have more compassion as agricultural producers. Maybe we have to recognize that we have some obligations, and if we're going to get a fair return out of the marketplace, then as an agriculture industry we have to have more compassion for those nations around the world who can't grow enough food to feed their hungry people.

If we can create fair and reasonable incomes on our farms, then we're going to be in a position where we can afford to be compassionate to the needs of others who don't have our resources.

If we're going to have an agriculture industry in Canada, we have to have fair and reasonable returns on each and every farm in Canada as long as those producers are striving to increase their productivity and efficiency. We can't guarantee that every agriculture producer in Canada is going to have enough money left at the end of the day to say "my business was profitable." We have to create the opportunity for those producers to achieve some kind of a fair return for their labor and their investment. We have to build into the system some type of efficiency gains that will lead them into improving pro-

duction in a planned, progressive way — a way that will not lead to changes in our rural communities that we are unable to cope with. We will make change happen, but it has to be in a planned way.

One particular thing the dairy industry faces is a world-wide consumer trend to lower-fat dairy products. Every major dairy producing nation around the world is facing that change. Consumers are moving toward lower-fat dairy products, and that will inevitably affect the size of our industry around the world.

There's a pervasive feeling in the dairy industry that because the consuming public wants a lower-fat product at the retail level we should somehow magically lower the amount of butter fat in the milk coming from our dairy farms. The quick apparent solution is to lower the fat test off dairy farms. We'll still be able to sell as much milk, and we'll have solved the problem of the consumer marketplace. That's totally the wrong solution, in my opinion.

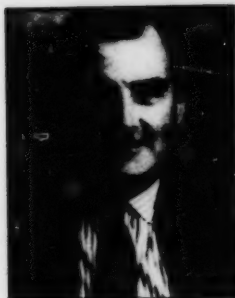
Change is inevitable. But let's recognize that agricultural policy is not just economic policy. In fact it is both economic and social policy in our country. If we're going to have a strong, viable agriculture sector in Ontario, we're going to have to work together; we're going to have to manage the change; we're going to have to overcome our commodity differences and set some priorities for our industry.

If we can have at the farm level the opportunity for our producers to have a reasonable income and lifestyle they will produce the agricultural products needed in Canada. We're only going to be able achieve that if the policymakers both in Ottawa and Toronto recognize that there are different forces at play in agricultural policy development, recognize that we have to have fair rules around the world, and recognize that we're going to have to have a dual agricultural policy in Canada for the foreseeable future.



Managing change from the perspective of a major food processor

A unique management survival kit helps keep H.J. Heinz on course.



Andrew L. Barrett is the president of H.J. Heinz Company of Canada Ltd., a position he has held since May, 1989. Mr. Barrett began his career with Heinz in 1961, and has held numerous positions in food service, new product marketing and research and development. In 1980 he joined the Heinz World Headquarters staff in Pittsburgh as general manager of planning and diversification, and later served as Chief Operating Officer of Weight Watchers International Inc., a Heinz subsidiary, in Jericho, New York. Mr. Barrett was born in the United Kingdom, and is a citizen of Canada.

Andrew Barrett

President, H.J. Heinz Company of Canada Ltd.

I see three fundamental changes in our operating environment that are now playing a significant role in the way we manage in the food processing industry. First, free trade and the creation of a whole new competitive arena is obviously a major one — and whether we are for it or against we cannot afford to waste time in preparing for it in the precarious hope that it will go away. The changing relationships among our expanding number of stakeholders is the second; and the rise of environmentalism as a permanent fact of business life is the third.

None of these changes are news to you. The question is: How do we deal with the implicit management challenges they pose to all of us? I want to bring these elements of change into a management focus. And to do that I have brought with me a management survival kit for the 1990s. In it I have the tools I think we are going to need to manage through to the year 2000.

What's really great about these tools is that we all have them at our disposal. And they include: a pair of executive spectacles; a good mirror; a hockey stick; and a ruler.

The glasses symbolize vision — in this instance, corporate vision. Without it, I don't think we can manage in these changing and often turbulent times.

What is this corporate vision? At Heinz we

recently re-wrote ours to respond to the changes we are talking about today. It says:

"Within 10 years Heinz Canada will become the best managed, highest quality supplier of targeted, value-added food products and services in North America. And we will be known and recognized for that by our customers, consumers, the local community, our employees and suppliers."

Nothing distinctive, nothing earth shattering, nothing unique — simply know who you serve and then systematically set about to do it better than any one else. That is the tough part.

I just want to point out two key phrases in that statement:

One is "value-added food products and services in North America." That used to read, "in Canada." But change brings with it expanded horizons. We need a good set of glasses for our corporate vision because our line of sight now extends far beyond the border of this province and this country.

The other key phrase is to be known and recognized as a quality purveyor "by our customers, consumers, the local community, our employees and suppliers." Our corporate vision, therefore, has an external reference point that consists of satisfying a coalition of stakeholders. Our success no longer depends just on what we think is important, but on what "our cus-

tomers" think is important. If we do not perform to their more critical expectations and desires we will not be successful. And I should add that those expectations are constantly evolving. So any vision must focus on the supporting processes that recognize change as inevitable.

Both federal and provincial governments have recently published forward-looking visions that encompass many of the changes we can expect to see in the coming decade and beyond. The federal task force on competitiveness, and the Ontario government's two major reports in the past year — *Common Ground*, and the Industrial Restructuring Commissioner's food processing report — are healthy and valuable contributions to an industry-wide dialogue.

So, a good pair of glasses is a must if we are to see where we really want to be, and where we can safely survive. It enables us to visualize with some degree of clarity our desired future state. But vision alone isn't all we need to manage in the years ahead.

Therefore, before we get too carried away gazing off into the distance, we need a mirror to get a good look at ourselves and see what needs changing to keep up with the times. Marshall McLuhan once claimed we are driving into the future looking through a rear-view mirror. But we need a mirror for more than just seeing where we have been. We need a mirror that reflects an accurate likeness of ourselves and shows us for what we are — a mirror that reveals both good and bad features and helps us spot areas for improvement.

The most honest mirror at our disposal is the Free Trade Agreement, because free trade gives us little choice but to contemplate our reflection in a looking glass that is leaving nothing to the imagination. It reveals an industry that has much potential but it also shows us where we must change if we are to successfully realize our collective vision of the future.

Here's what I see, and this is the basic starting point and it starts with our ultimate consumer. Less than a couple of hours drive away, food products are anywhere from 15 to 50 per cent cheaper to purchase. If free trade has done anything, it has brought that fact to wide public attention, and consumers are taking advantage of that fact in droves. In fact \$100 million per annum is being spent by Canadians in U.S. grocery stores.

Let me explain briefly the situation we face at Heinz. As a Canadian company with a U.S. parent, we take our responsibility to serve the

Canadian marketplace seriously. But the question remains, "from where?" Do we continue to maintain a manufacturing presence in Canada or would it make more economic sense to move all or part of our manufacturing operations to locations in the United States? The answer 12 months ago was decidedly "Go South!" Today the likelihood of remaining in Canada is more positive, provided we continue to make the kind of progress we have made in the last year.

Our packaging costs are coming down. The Canadian packaging industry is also facing equally intense American competition, and this is putting pressure on them to adjust the costs of cans and glass to reflect a North American market reality. Our own internal ability to cut overhead is also taking hold. Heinz is committed to a three-year, \$60 million dollar capital spending program to upgrade our Leamington plant to reduce energy, maintenance and production line costs. We are also making advances in controlling the escalation of labor costs. Our employees are aware of our need to control costs and have taken an enlightened longer-term view.

That leaves us with raw product pricing as the one area where we must not lose momentum. Raw products account for a significant portion of our variable costs, and because of the various supply management systems in place in Canada, it is the one area over which price is not established by market conditions.

Let me say firstly that we at Heinz are delighted with the progress we have made in our dealings with the Ontario Fruit and Vegetable Growers Association. We have encountered enlightened people taking creative, ground-breaking steps towards more competitive end results. Both sides are working together in a spirit of mutual co-operation, and this continuing search for even more creative solutions will, I believe, ensure our joint long-term success.

My colleagues in other areas of the food processing industry with more complete supply management, particularly poultry and dairy, are apparently having less success. The various management approaches being used must be examined commodity-by-commodity, so that each is required to face up to new realities.

Raw products are a big part of our variable costs, and because of the various supply management systems, it is the one area where price is not established by market conditions.

Our focus now must be on identifying solutions that will continue to make us competitive and enhance the value of our products and services. An integral part of this will mean becoming more responsive to broader *global* pressures, not just the Free Trade Agreement in North America.

But in order to collectively deal with these pressures, all of us in the food processing industry must begin building a new, partnership relationship with farmers and primary producers. To do that I believe we have no choice but to improve the supply management system, and expand it to include all the parties that are affected by the cost of food — not just

farmers but processors, retailers food service operators, and consumers.

As the grocery product manufacturers association has made clear, supply management is not a problem in itself. But it should be first, re-structured to represent the views of all participants in the process, and second, focused on a broader mission. Marketing boards should be "*marketing*" boards with accountability to build real opportunity and growth for their specific commodities. They should focus on reducing cost and on improving the efficiency of the entire system.

In other words, we must co-operate in order to compete. So I have brought a hockey stick as my next essential management tool. In itself, the hockey stick is a great device for achieving a goal — so to speak. But hockey is also a game where winning depends on teamwork and co-operation. As we deal with issues such as supply management, we must recognize that farmers, processors, retailers and government officials are all on the same team. But we are no longer playing in the house league. Our small and intimate arena has expanded to global proportions and our competition is an international team of seasoned and hardened competitors. We must recognize that unless we work as a team — co-operate — we will likely all go out of business together.

At Heinz, an integral part of our mission statement is recognizing that we have many stakeholders in our company's business. They too are part of the team, and we must now define ourselves in terms of their expectations.

Supply management is not a problem in itself. But marketing boards should focus on reducing cost and improving the efficiency of the system.

And this leads me to my final management tool, a ruler. In the crowd of competing demands, needs and wishes, we must be able to measure our values and performance. But what are the new rules of measurement?

Some don't change: financial viability, profitability, market share and penetration of new markets clearly remain important. But in the 1990s we will need to work harder to measure ourselves against our stakeholder's expectations. If we deliver products and services that conform to the needs and desires of the marketplace, profit will follow. I believe that only by expanding our concept of the bottom line will we be able to achieve the financial targets and goals we set for ourselves.

Consumer satisfaction is the fundamental measure upon which many of us here will be judged. Brand loyalty is becoming a quaint notion of the past. The consumer is asking a lot more of us. If we don't deliver, the shopping cart moves down the aisle to someone or some product that does. Health, taste, safety, convenience, choice, size and price — you name it — have all become crucial buying factors.

We must now add into this mix the rising importance of the global marketplace. Our international competitiveness might prove the toughest measurement of all. We no longer have the option to stay at home, free from the hustle and bustle of international competition. A global yardstick now affects us here and wherever we export.

In addition, we can see emerging difficulties and potential conflicts. For instance, concerns about waste management must be balanced against consumer demands for convenience packaging. Similarly, the food processing industry's ability to reduce and control costs conflicts with what are often reasonable demands for higher wages, job security or farm commodity support.

We must try to ensure that industry and government agree on an affordable balance, and on economic and socially responsible ways to solve these potential conflicts, and at the same time enhance our ability to compete — our ability to provide jobs and prosper in world markets.

Increasingly, prospering in world markets

will be tied to a company's ability to execute the right environmental strategy; to position themselves as "the complete" corporate citizen. At Heinz, we have taken this responsibility seriously. We have an established environmental policy with a focus on five areas: solid waste management; support of recycling and reuse initiatives; air quality; water emissions; and energy management and reclamation.

Let me give you some examples. Recently, at our Leamington plant, we began an energy co-generation project. We are now using excess natural gas that we conserve from other parts of our manufacturing operation to fuel two turbines to produce electrical energy and steam. We expect this project will reduce our energy costs by nearly \$3 million a year. And that is just the start. Because our needs for power vary during the year we can also "export" this energy to other parts of the province when we don't need it.

In fact, this is the first power development project to come on stream under Ontario Hydro's plan to develop approximately 2,100 megawatts of privately generated power over the next decade.

Through this program, Heinz is able to re-

duce its cost of production; reduce its energy demands on the environment; contribute to the overall energy needs of the province; and reduce the need for developing new and expensive sources of power. In addition, we have reduced solid waste output by 70 per cent in the last 10 years, with an objective of future 50 per cent reduction by 1993.

We are working in other manufacturing areas to achieve the same multi-level impact. For instance, Heinz is working closely with the packaging industry to develop and expand the number of recyclable containers we use for our products. The more we can do to participate in programs that have multiple benefits, the more likely we are to measure up to the many demands of our stakeholders.

Unfortunately, my management survival kit doesn't contain a ticking stop watch to remind all of us that urgency is another measurement; we are running out of time. We urgently need, as an industry, to measure up in this decade. By developing a vision that makes sense for you and your organization, you are in effect mapping a path to the future, setting priorities that matter and identifying potential problems before they occur.



Managing change in the restaurant and hospitality industry

The Red Lobster restaurant chain has grown faster than any similar group. But costs in Canada are higher than in the U.S., and tourism is falling as a result.



Bill Dover is the president of General Mills Restaurants Canada, a position he has held since 1988. General Mills owns two restaurant chains in Canada, Red Lobster Canada, which specializes in seafood, and The Olive Garden Canada, which serves Italian food. Mr. Dover is a native of Chalk River, Ontario, and is the past president of both the Toronto and Ontario Restaurant Associations. He currently sits on the board of the Advanced Management Program for the Hospitality Industry at the University of Guelph.

William P. Dover
President, General Mills Restaurants Canada

The Red Lobster chain was the first General Mills restaurant concept. When Red Lobster opened in Windsor in 1982, we really made all the mistakes that companies do when they go to a different country. First thing we did was print the price on the menu in U.S. dollars. In other words, we didn't allow for the exchange rate. No one discovered why people were so pleased with the prices for the first 90 days. We don't do those things any more.

By 1985 we opened our second and third stores in the Toronto market, and we had slow growth for a couple of years. But in 1986 we bought 34 new properties and in a ten-month period we jumped from four stores to 40. Never has any one in Canada opened so many dinner houses in such a short period. It gives us a bigger business base, and allows us to buy in volume and to advertise on television.

By 1989 we opened our 50th Red Lobster restaurant in Canada in Sudbury. That same year we brought our first Olive Garden restaurant to Canada and opened eight of those. Today we have 75 restaurants in Canada: 63 Red Lobsters and 12 Olive Gardens.

In both our concepts, the accent is really on quality of staff training. When we open a new restaurant in the Red Lobster division, the employees are hired locally. They report to work on Friday without any experience and we open

on Tuesday. People compete to be on the opening team. They call themselves the All-star team.

We made the same mistake in Japan, only it took nine years to fix it there; we fixed it in four years in Canada. We did not listen to the guest and I was as guilty as everyone else. My boss noticed one day we didn't have our famous apple cobbler on our menu. I said that Canadians don't eat cobbler. I got away with that for about a year, until I was on vacation in Florida with my wife and we went into a Red Lobster, of course.

Guess what she ordered for her dessert? Apple cobbler. And she said "that's what you need on your menu in Canada." I heard from the supreme authority and we implemented it and you know what happened. It started in the first week and is still the number-one selling the dessert in Red Lobster in Canada. When somebody tells me our guests will not like a dish and we can't prove it with good research, I tell them the apple cobbler story.

Now a little bit about our international philosophy. At General Mills we believe that if you are going to do business in a country you'd better hire there and you'd better buy there. We have over 7,000 employees in Canada. We have three U.S. management executives for 7,000 people. One of them won't go back to the U.S.,

and the other two are here because we couldn't find Canadians with similar qualifications and experience.

We have created 7,000 jobs — minus three — in Canada. As a matter of policy we also buy locally when the products we need are available. However, quality, value and service must be maintained at all times. Food purchasing rule one is that you buy the best quality at the best price. Quality is always first. There is no good price for second-rate quality. But any price savings we get after we make a reasonable profit, we pass on to our guests. If we keep on doing that and keep the prices down, we are going to have more guests.

We sell six kinds of lobsters. We have that maritime lobster which is called Maine lobster in the U.S. All of the lobsters we are using in Canada are from Canada, and 100 per cent of our Japanese operation are using Canadian lobsters. Langostinos, the little red lobsters, we catch in Chile, which is the best place for langostinos. Icelandic lobsters come off the Iceland coast or off the coast of Scotland and we go there to buy them because they are the best. We're very fortunate because we can buy rock lobsters from Cuba, while the American companies can't. We are delighted because the Cuban facility is one of the cleanest and most impressive lobster process facilities for that type of lobster in the world.

If you go into any Red Lobster in Canada you should see on the blackboard the aquaculture rainbow trout. They are all buying the Ontario farmers' rainbow trout. The reason is Ontario provides consistent supply with extremely high quality.

We are also the first national restaurant chain in Canada to offer a New York-style steak with 100 per cent hand-picked Canada choice product. All other chains are using lower grades of beef or they are importing. We have just signed the contract for 100 per cent Canada choice. Ninety per cent of all sea scallops sold in the Red Lobster system world-wide are Canadian scallops. All the house wine we are serving in Canada is Ontario wine from the Niagara peninsula. The reason we use Ontario house wine is that the quality and service are absolutely outstanding.

But on the cross-border movement of products, something I know that is very close to your hearts, we do import a lot of farm-raised shrimps from the U.S., as nobody raises farm-raised shrimps the size we need in Canada. However, General Mills Restaurants Inc. in Or-

lando imports more Canadian agriculture and seafood products than we will probably ever buy in the U.S.

Each year, for U.S. and Japanese consumption, we buy 2.5 million pounds of Canadian hard wheat for breadmaking, because it is the finest wheat in the world for breadmaking shrimp and seafood. We buy over 10 million pounds of Canadian fish for export to the U.S. and to Japan — primarily sole, flounder, and scallops — 200 thousand pounds of Canadian lobster meat and 600 thousand pounds of Canadian snow crab meat. In fact Canada is the largest supplier of fresh fish and fish products for General Mills Restaurants Inc.

I want to talk now about co-packing, because I think that's one area where we have got to work together. We are having a tough time co-packing. With Olive Garden and with Red Lobster, our custom-prepared products are imported at first, until we can set up an arrangement with a local supplier. We work with the suppliers, we give them the recipes, they sign a confidentiality agreement, and we provide technical support from our U.S. producer, and technical support from General Mills Restaurants Inc. headquarters in Florida.

It sounds easy doesn't it? I give you the recipe, you make the product, and I buy it. Well, not so. We've been trying to make our key lime pie in Canada for eight years, and we haven't been able to for one reason or another. We have some success stories however. Our fudge overboard pie — which is a really tremendous product — it took us five years to get it made in Canada. But the guy who finally did it, did it so well he's now the back-up supplier to the United States, and we're starting to ship it across the border. It is made with Canadian milk and Canadian eggs and Canadian flour, and it is a superior product at a very attractive price. We've had a lot of rejects, but we really do try, and eventually we get it working.

I cannot avoid the question of the "level playing field." I'm going to speak as a representative of General Mills Restaurants, but I also speak a bit for the Canadian food service industry. Our guests expect comparable prices to the U.S., particularly in restaurants operated by the same chain on both sides of the border. Canadians travel in the U.S. a lot, and people come back from Florida and comment on how eco-

It sounds easy doesn't it? I give you the recipe, you make the product, and I buy it. Well, not so.

nomical the restaurant meals are. Partially, I think that's a perceptual problem.

However, there is a price difference in many cases, and it becomes a problem because the restaurant and hospitality industry in Canada is truly an international industry. You know we bring a lot of foreign currency into Canada, through tourism, through conventions, and our border cities have a real problem. We opened

up a beautiful new restaurant in Sault Ste. Marie this summer, but on Saturday night everybody goes over the ditch and eats south of the border. They buy their gas south of the border, and you know they buy a lot of groceries.

We're going to get them back, but boy, it's tough when you have to

compete with some of the prices they're paying for inputs — especially considering some of the taxes that we pay in Canada.

But the playing field is not level for a number of reasons. The first and the biggest one hasn't hit us yet, but it will. It's called the Goods and Services Tax.

You know that Canadians spend 40 per cent of their food dollar away from home. And all restaurant meals are taxable under the GST, but supermarket meals aren't. You are going to say "what does that matter to me. I am selling the food anyhow."

But you are not. It is going to affect us very very much in the tourist industry. If you bring a convention to Toronto that is going to have a food cost of \$300,000 as part of the convention package, you'd better add \$21,000 on it. And if you are responsible for planing that convention, you might decide to hold it somewhere else, where you can use that \$21,000 to pay speakers or to cut the cost of the convention.

The second big issue we have is alcohol. We get beat up by U.S. tourists and European tourists on the price of our alcohol. They go crazy. Recently there was an attempt to book a huge convention in Toronto. The people were from the southern United States, and they were

talking to all the major hotels and the people from the Metropolitan Toronto Convention and Visitors Association. And the Toronto suppliers said "look, we need a couple of hours, go and look around downtown, and come back and we'll give you the final price."

While they were out they went into a bar and ordered a beer. No big deal. When the four people finished and paid the tax and tip, four beers cost them \$24. It worked out to \$6 per person for a beer. In the U.S., in the supermarket, you can buy a full case for \$4.99 or \$5.99. That convention isn't coming, folks. They said "our people won't pay \$6.00 for a bottle of beer. That's unreasonable." You see, you can measure the cost of a bottle of beer. You can't measure the cost of the banquet we had tonight. We lost that convention.

We do have a problem paying more for chicken than we do in the U.S., and the same thing in dairy, not so much in fluid milk but we really have a problem in cheese. I didn't notice it until we started offering Italian cooking, where you use a lot of cheese and chicken. I know some of you are going to say that other countries subsidize their producers; I don't know your business and I don't know how the subsidies work, but they don't show up on the menu price. I think we have got to get together and work this out, because I know that international conventions are not coming to Canada in the great numbers that came in the last decade. Tourism was substantially down this summer. They didn't go to Quebec, but they didn't come to Ontario either. Our Niagara Falls Red Lobster ran 800 guests below the same week the summer before.

Canadians are vacationing outside their own country and the outlook for that changing is not very good. I think we really do have to work this out together. We both you and I, have to work together because we want Canadians to eat and vacation in Canada. We, both you and I, want tourists to come back to Canada. We need their dollars. We, both you and I, want international conventions to increase. We're all here for the same reason, folks. We all want to sell our food.



Canadians spend 40 per cent of their food dollar away from home, and all restaurant meals are taxable under the GST. It will affect us very very much in the tourist industry.

Discussion

Morning session

Q I'd like to ask a question of Mr. Clark. The general experience of John Deere and others is that they've generally abandoned vertical integration. When you go about getting parts from outside your own company, what kind of assurances do you have about quality?

A (Greg Clark) The only gap in our manufacturing process, from design to checking specifications to quality control, is where the thing is manufactured. If we go off-site for gearboxes, for example, we ask our suppliers to build them to our specifications. When it comes back into our station, we inspect each piece as it comes through — which is what we would do if we manufactured it ourselves. All that's different is where you build the component. That applies whether you're building hitch-pins or headlights; it's really that broad.

Q My question concerns free trade. You got free trade in farm equipment in 1945; how many of the farm machinery manufacturers we had in Canada then are still here today?

A (Greg Clark) I probably don't need to answer that for you. You have three major manufacturers left in North America, that's all we have. You've got Deere, you've got Case, and you've got Ford, and all of them still have plants in Canada, the same

ones that we've had for the last 50 years.

The only one that has left the business is our friends in Brantford (Massey Harris). Canada still has a good enough base, from a manufacturing viewpoint, that none of us has decided to leave. Free trade, or the lack of it, has not forced us to stay in Canada. We manufacture in Canada because we can do it very effectively here.

Q It's been very interesting to hear the speakers talk of change, and I think the common theme has been that if the changes are not made something would happen, like the producers would go out of business.

We have a problem in our farm sector, in that we know change has to occur, but that change will probably reduce the number of farmers. How do we manage that?

The answer the Minister gave this morning is that he's going to make a very strong commitment to the rural way of life. Now at first glance that suggests to me he's going to put up more defences so the changes won't occur.

The pressure to make those changes is being removed from the farm sector, whether we do it by supply management or by farm subsidies or somehow. We're saying we don't have to be subject to those same forces.

So the question is, how do we manage that change in the farm sector? Do we reduce the price, for instance, to the point that some supply-managed farms go out of business?

I fear that the threat that you've worked under, that caused your changes, isn't in place in the agricultural community, and certainly the

politicians are saying "we're not about to subject you to that same threat." Well then, how do we make change?

A (Lloyd Quantz) There is a need for smaller communities to be vital, and to provide service centres, and to have the traffic flow that justifies them. There's a need to have the educational facilities for the remaining farmers who are there; there's a need to have a seasonal labor supply.

But one point that's pretty clear to me is that the size of the farming population is going to decline, whether farm times are good or farm times are bad, because the technology tends to reduce the amount of labor you have to put into it.

The bottom line of what I was trying to say this morning is that the necessity of change will

get through. We can build walls of defence if we want, and they'll cost us a lot of money before we finally recognize that the marketplace does have a way of getting through to us. I sense that people today are more ready to deal with the necessity of change than they have been for a long time.

(Greg Clark) I fundamentally agree with your point of view. But the trouble is that agriculture on a world-wide basis is muddled up by governments; Canada is not unique in that. The trouble we have is that we don't have enough money to fund what the other guys are doing.

I think it would be very blind for us to think we can stay in a totally protected environment, because the country can't afford to keep that wall up around us. I don't care which of our supply management systems we're referring to, the world will not let us play a game all by ourselves any more. That's gone.

Discussion

With the Minister of Agriculture and Food

Q In the area of financing you mentioned feeder clubs, something that was developed in the 30s out west and worked very successfully there for some time. Would you consider doing that kind of financing in other areas, other than pure cattle, perhaps hogs or corn or what have you?

A (Minister) Yes I certainly would. I think the pursuit of this plan in other commodities depends on the success of the one we're looking at. From my perspective we can view it as pilot project, see how works, and if it works successfully it is some-

thing we would certainly explore in other commodities.

Q Mr. Minister, when you arrive in Brussels for the conclusion of the GATT talks, isn't there a danger that the party will already be over, and supply management and Article XI will be lost?

A (Minister) We've been doing our best to prevent that from happening; we have been communicating with our counterparts in Ottawa. We are not sitting back on our hands waiting to see what happens the first of December. We are sending in-

formation on supply management systems to some of the people in other countries so they can talk to their negotiators, to explain the advantages of supply management, how it works in Canada, and how it might work in their countries in the future.

We have been fairly active, and doing as much as we can, given the fact that we are dealing with federal negotiators. We want to be there for the final session however to make sure there are no last-minute deals cut which strike Article XI, or which leave our farmers more vulnerable than they are already are.

Q I have a question that relates to free trade. Canadian energy policy dictates that we pay 30 to 40 per cent more for our energy than our competitors in the U.S.; Canadian labor policy, which doesn't protect labor, results in higher wage rates in Ontario; we have a Canadian Bank Act that makes us pay from four to five percentage points higher interest rates in Canada than our competitors in Ohio, Michigan and New York state; and our social policy, which may be one of the best in the world, is also a very costly one. Given these handicaps, how can we survive in this agriculture business? How much influence do we have, in your ministry, in the federal arena, to level the playing field?

A (Minister) Well certainly, as I'm sure you're well aware, my party has opposed the free trade settlement. We did not like the way it came about. We feel we gave away too much. We are not opposed to international trade, we're not opposed to more trade, but we did not like the agreement that

was signed.

We have talked about coming up with programs or initiatives that will protect workers and farmers — that whole sector — from the Free Trade Agreement. However there is not enough money in the treasury to save all the victims of the free trade deal.

In terms of what influence we have, I think it will be more as a government in Ontario that we have influence, and not specifically any influence at the Ministry of Agriculture and Food might have — until we get a chance to change the government in Ottawa. Then I think we have some hope.

Q A few years ago UCO ran a successful test project in the ethanol-blended fuels, and it proved there is good consumer acceptance. The Middle East crisis has precipitated interest now in economic fuels. Does your support for ethanol fuels run beyond the current Middle East crisis?

A (Minister) Yes, my concerns go much beyond the Middle East crisis. The only question I have at the moment is the energy inputs used to produce ethanol, if we were to use corn for example. There may also be other commodities that we can use to produce ethanol.

But as soon as I can see it is at least neutral or that there is an energy gain, I will be a very strong supporter, providing we are not putting more energy into producing ethanol in the form of fuel, fertilizer, and petrochemicals. As long as we can demonstrate a net energy gain, you can count on my support.



Discussion

Afternoon session

Q The supply management you're doing today is excellent, but what do you do with the over-production of wheat in Western Canada? What would you consider as possible actions there?

A (John Core) I am not in the business of selling supply management to other commodities. I think each commodity has to make a decision about what the market is and which way it has to go. I'm a proponent of supply management for those commodities we have now.

I think there are some advantages. I recognize supply management does have some down sides. I think grain producers are going to have to decide: what is the world market for grains? What are the potentials? In other word how do we fit into that world market for grains, because it appears that grains are one of the commodities that are going to trade globally.

But I don't have a solution for the problems of surplus grain production. I think again we have to come back to the old understanding in agriculture that prices in an open market place are traditionally set by the surplus disposable value.

And that's our problem as agriculture producers. We grow grains on our farm. We're going through the same problems with soybean prices and corn prices. But we are our own worst enemies because our solution to addressing the income side in those commodities is to try to get a little higher yields and lower our costs and we end up with more product to sell.

The dairy industry in Canada decided a

number of years ago that we weren't going to allow the surplus disposal market to set the domestic dairy price. And there was an agreement with the government.

A (Owen Jennings) John, you're ducking the question. Twice in recent history — just in the last few years to be precise — the Canadian dairy industry has dumped surplus milk product on the international market to the detriment of my dairy producers. The problem with aiming at a self-sufficient market is that you are bound to over-shoot.

That's the whole problem with Europeans; they didn't set out to over-produce, they set out to be self-sufficient. And they've moved, if you look at beef, from being a net importer of about 90,000 tons to being a net exporter of about 150,000 tons. They didn't set out to be exporters, they set out to be self-sufficient.

What they are doing with their surplus is dumping on the world markets to everybody else's detriment, and that's one of the arguments that New Zealand has against the supply management approach. You can't hit the bull's-eye every time. What do you do with the surplus product, and where's your social justice when it comes to dumping it on the world market?

A (John Core) He's got me on that one. But I recognize that the dairy industry in Canada has aimed at the domestic market, plus a sleeve that has been aimed

at export in the world market. We've always pointed out that the disposal of that product was paid for by the producers.

That won't satisfy Owen, so I'll go to the next step and say that we recognize that if we get new rules under GATT, strengthened rules, that will create more discipline on us. We may have to go the next step again, and put more discipline in the system, as far as production over the 10-year phase-in period goes.

And I think as an industry we have to recognize there have been some historical exports. If we get fair rules that allow a certain level of imports and a certain level of exports and still practice supply management, we'll play by exactly the same rules everybody else plays by. We are prepared to do that, and prepared to take necessary change to do that.

But they have to be the same rules everybody plays by. We can't have waivers in the U.S., variable import levies in Europe, and all these other myriad of things that are out there, and expect us to practice more discipline than anyone else who is putting in some kind of border protection.

And I don't apologize for the fact that we've been in the world market. It's been at historical levels, and it has been at lower levels than most countries.

Q I have one more question for Rob, and then I'm going to ask each of you for your last words.

Rob, by the 11 O'clock news tonight the polls will be closed in California and we'll have the verdict on Big Green. Why don't you gaze into your crystal ball right now and tell us what things are going to happen with that vote.

A (Robert Wolcott) It'll be 55.5 to 44.5. I don't make this comment as a government official. My strong instinct is that Big Green will go down, and that it actually will go down by a larger margin than many might have anticipated. I think that is a function of some of the personalities that are associated with it, and I think because of the anticipation of a downturn in the economy.

You'll find Californians are affected by

many, many things, but boy, when they're affected by real estate values they get really scared.

Frankly I think some of that is coming home. If this vote had been held three months ago it would have been 60-40, and if it had been held one month ago still it would have hung on 55-45; right now that ratio might just be reversed.

A (Owen Jennings) The reality is that the world is changing. We can fight against it or we can move ahead of it. I think I'd like to leave you with part of what I've said in my speech. We can either fight against change or we can accept change, or we can make change happen.

And I don't see a group of people more able to make change happen than farmers. I believe we have enormous power in our hands because we produce food and people won't go without food for too long. We have enormous power at our hand because we are true conservationists, and I use that word as opposed to environmentalists. We have been at that for a long time, tilling that thin skin of the apple, and by-and-large we've done it exceedingly well.

Let's recognize there are changes, that the world's a different place, but that we have the strength, ability and potential to drive ahead of the change and to establish ourselves in a co-operative way. By strategically using our co-operative strength as producers and processors we can ensure our viability and our standard of living in a sustainable long-term way. Thanks very much for inviting me over and thanks for being real friendly in Canada.

A (Andrew Barrett) Just two words I think. Let's get together to co-operate, so that we can compete — co-operate to compete. I don't see the world as a fair place in which to do that all the time. It is not going to be ultimately a level playing field, universally or globally. But let's at least get together to manage those things that are within our control to manage, and manage them better.

A coalition between government, between farm producers, processors, distributors and the consumer. Let's manage that which is within our control better.

A (John Core) I think we have all realized that change is inevitable. But change is only brought about by people. Change just doesn't happen for the sake of change. People drive industry; people drive farm production. I think we'll have to recognize there is difference of opinions about this global economy we are going into.

But the key thing is if we have all got the same rules to play by, we know what the rules

are, if we play by them, then each agricultural industry in each country around the world will be able to set its priorities, clearly working with the government and with the processing sector.

But we have to have the same rules. That's my plea, that in this globalization, that the rules are clear, we know what they are, and there is nothing hidden from anyone else. And then we'll march on and meet those challenges. 







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